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Canada-Dominion-Provincial Relations,
Royal Commission on, 1937

ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

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REPORT OF HEARINGS

[Ontario]
Vol. 2, Pt. 1-2

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ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

TORONTO, ONTARIO, APRIL 27, 1938

The Royal Commission appointed to re-examine the economic and financial basis of Confederation and the distribution of legislative powers in the light of the economic and social developments of the last seventy years, met at the Parliament Buildings, Toronto, Ontario, on Wednesday, April 27, 1938, at 10.30 a.m.

PRESENT:

HON. CHIEF JUSTICE NEWTON W. ROWELL....CHAIRMAN

DR. JOSEPH SIROIS	Commissioners
JOHN W. DAFOE, Esq.	
DR. ROBERT ALEXANDER MacKAY	
PROFESSOR HENRY FORBES ANGUS	

Commission Counsel:

Louis S. St. Laurent, K. C.

Secretariat:

Adjutor Savard, Esq.	Acting Secretary
R. M. Fowler, Esq.	Legal Secretary to the Chairman
Wilfrid Eggleston, Esq.	Assistant to the Secretary

FOR THE DOMINION MORTGAGE AND INVESTMENTS ASSOCIATION:

Mr. J. H. Lithgow	President
T. D'Arcy Leonard, K.C.	General Counsel

BRITISH ISRAEL WORLD FEDERATION:

Rev. E. J. Springett	Prepresentative

CANADIAN CHAIN STORE ASSOCIATION:

J. S. Johnston, Esq.	Secretary

CANADIAN IMPORTERS AND TRADERS ASSOCIATION, INC. TORONTO:

A. O Thorne, Esq.	Secretary-Manager

CANADIAN MUNICIPAL ASSOCIATION:

C. M. Middlebro	Chairman, Special Committee

ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

NATIONAL CONSTRUCTION COUNCIL OF CANADA:

J. Markus, Esq.	Secretary
G. M. West, Esq.	President
W. W. Goforth, Esq.	Representative.

Parliament Buildings,
Toronto, Ontario,
April 27th., 1938

MORNING SESSION.

The Commission resumed at 10.30 A.M.

THE CHAIRMAN: Mr. Leonard.

MR. LEONARD: Mr. Chief Commissioner and members of the Commission: Before proceeding on page 57 where we left off last night, I should just like to refer to the question directed to me yesterday by Professor Angus with respect to the interest rates of Dominion Canada bonds on page 10. I expressed the view yesterday that that was a true rate of interest and I have checked it since and that is the case. It is the total amount of interest expressed as a percentage of the total amount of interest bearing debt in the case of those figures.

Page 57, I think we were at the last paragraph on that page:

> "It would be our expectation that under a proper functioning of a Commission such as we suggest in Canada, which we might call an Advisory Commission as a matter of convenient terminology..."

Perhaps more properly an Advisory Commission on Special Grants, but that is the phrase that is used here.

> "....the result would be that those provinces that now need assistance would reach a point where it was no longer required. If it should develop that one or more provinces appeared to be in a fairly permanent condition of inequitable inferiority, then some other form of assistance might be required, directed toward improving its agriculture or other industries. This would be a matter for the federal government, but the investigations of the Advisory Commission would form a sound basis upon which to determine the nature of any federal policies in that direction.

From our knowledge of Canada we incline to the opinion that on a long term basis all our provinces are sufficiently rich in their own resources to maintain their necessary services and a constantly improving standard of living if given sound administration, particularly in financial matters, by their governments. Emergencies or temporary dislocation may have to be met, but we are fortunate in this country in having nine provinces, each with its own natural advantages and attractions and potentialities.

In Canada the greatest danger through the operations of such an Advisory Commission lies not so much in the present provincial problems that it might be called up to deal with, but in the possibility that certain provinces not now requiring assistance might be encouraged to embark on expenditures in the expectation that if they in turn became embarrassed, the Commission would be called into action to help them out. To a certain extent this can be guarded against by the controls and conditions which would be imposed by a Commission, and it indicates the need for such safeguards in dealing with present conditions. In any event, the same danger is inherent in our present system, and if a grant recommended by a Commission penalizes bad finance, it may be reasonable to hope that provinces not now in need will maintain their own financial integrity.

There is one aspect of our Canadian situation that differs materially from Australia. The Commonwealth has assumed the obligations of the state debts and a Loan Council is operating in control of present and future state and Commonwealth borrowings.

On that account, there is a special reason for the Commonwealth's interest in the financial position of the states. Furthermore, the Loan Council acts as a preventative against states not now in difficulties assuming undertakings that might eventually embarrass them financially.

It does not seem feasible to adopt the exact Australian plan of Loan Council for Canada for reasons which we need not enumerate. We do suggest however, that the inter-relationship of Dominion and provincial credit calls for some cooperation in dealing with future borrowings.

A province may be able to meet its current requirements, with or without federal assistance, but be unable to finance a maturing capital debt or necessary capital expenditures. Obviously this is not a case for an outright grant by the Dominion, but it might call for the assistance of Dominion credit by way of loan or guarantee. Such instances have happened in the past.

Whether by loan or by guarantee, such assistance should be coupled with adequate control over budgets and borrowings. So long as an Advisory Commission is operating it should be able to deal with applications for capital assistance and to make recommendations to the federal governments as to the character of that assistance and the controls. There would seem to be no necessity for a Loan Council in such cases.

In Australia the Loan Council was designed to accomplish two other purposes, the first being the orderly marketing of bonds, and the second being the reduction in the cost of borrowing through the joint

control and security. Somewhat different conditions apply in Canada."

THE CHAIRMAN: Mr. Leonard, before passing from that, assume a province desires a loan for capital expenditure but does not feel it needs any federal assistance and it can go into the market and borrow, but at a higher rate of interest that the Dominion or some other provinces could secure. That situation is not covered by your proposal, is it?

MR. LEONARD: I think we deal with that on the next page, Mr. Chief Justice.

THE CHAIRMAN: Then, we will come to it.

MR. LEONARD: Reading again in the last paragraph on page 59:

"Except in war-time orderly marketing has not constituted a real problem; and some provinces have been able to borrow on a cost basis very close to that of the Dominion. On the other hand, some provinces would have been saved a considerable sum of money on borrowings on a legitimate basis had they been able to have the support of federal credit. In the interests of our national economy, it seems desirable to effect that saving if it can be done on a sound basis.

The answer seems to lie in individual treatment rather than in a comprehensive Loan Council on the Australian plan applicable to all governments. It would appear further that it would be carrying the principle of the Advisory Commission too far to have it deal with cases of provinces needing no actual assistance but merely desiring the benefit of a lower interest rate through a federal guarantee.

No constitutional amendment is required to

enable the Dominion Government to make direct grants to a province upon the recommendation of a Commission as outlined in the earlier part of this submission. An amendment would be required, however, to give any effective control over the budget or current or capital borrowings of a province that would be required to protect a loan or guarantee by the Dominion. It is true that there are now existing such loan or guarantees, but they have not the security that should be attached to them if we are to contemplated their continued existence as a part of federal-provincial finance.

Therefore, we recommend an amendment to the British North America Act somewhat analogous to Section 105A of the Australian Constitution as enacted in 1928, to the effect that the federal government may make an agreement or agreements with a province or provinces, and that such agreement may contain terms for the protection and security of the Dominion, and that it shall be valid and binding upon the parties thereto and subject to variation only upon their consent."

That suggests that agreement might cover the case of a loan for a new capital borrowing where a Dominion guarantee is desired in order to get a lower interest rate.

THE CHAIRMAN: We have to look at it from various angles. Assume the Dominion is not prepared to pledge its guarantee for the provincial credit, but is prepared to assist so far as it can in aiding the province to secure the best financial arrangements possible. It has been suggested to us the possible benefit of a Loan Council would be that borrowers would know that the public debt would not be so increased as to imperil their security and therefore

the province might be able to secure better terms than it otherwise could. Has your association considered that aspect of the matter?

MR. LEONARD: Well, the last paragraph, probably I will read that too.

> " As long as such agreements were made on an individual basis as between one province and the Dominion, there would be no Loan Council as in Australia. The amendment should be broad enough, however, to provide for the possible development that an agreement might be reached between the Dominion and all provinces for cooperative action in government financing."

THE CHAIRMAN: You remember during the war, in order to protect the credit, the borrowing power of Canada, no loans could be made without the approval of the Dominion Government or the Minister of Finance.

MR. LEONARD: Yes, Mr. Chief Justice.

THE CHAIRMAN: And I think it was in the brief of the Edmonton Chamber of Commerce that they stressed very strongly the importance of a Loan Council, and in some of the Maritime briefs the Loan Council was also stressed. But, this represents the idea of your association on it anyway?

MR. LEONARD: Yes. And I might say there is no suggestion of having found the perfect solution by any means. We recognize that if there was an easy solution it would have been found before this and that any suggestion carries with it difficulties and natural objections. It did seem to us in putting forward this suggestion that there might be practical difficulties in the way of putting into effect an immediate and complete control by the Dominion over borrowings of the provinces.

THE CHAIRMAN: Of course, there would be. That would

not be possible at present.

MR. LEONARD: And that therefore in the first place, with the operation of a Commission designed by annual grants to bring budgets into balance, together with some control and supervision over finances directed towards improving the financial position, it might conceivably be that the credit of the provinces on their own would dispense with some of the necessity of loans or guarantees from the Dominion, but that in any event if that were required, then, through the first step or through the constitutional amendment, it would enable such loans and guarantees to be made whether on an individual basis or with the possibility that it might develop into a complete joint action by all provinces. We would have the machinery capable of evolution without taking an irretrievable step which might have repercussions which you could not calculate at the present time.

COMMISSIONER DAFOE: I suppose you gave some thought to the possible political stresses that would arise in individual dealings between the Dominion and particular provinces. You would have two kinds of provinces developed: those over whose budgets the Dominion would exercise a measure of control and those that would be free of that control. Do you not think that it would create a good many occasions when there would be political friction and an attempt to exploit grievances, real or imaginary?

MR. LEONARD: The political difficulties are inherent in almost every suggestion. They have been very much to the foreground in the past and undoubtedly we cannot disregard the possibility in the future. The suggestion of this Commission carries with it the thought that by being of a judicial character and of a continuing nature it might avoid to some extent those political difficulties. At any

rate to a greater degree than in the past or probably under any conceivable set up which we can imagine.

COMMISSIONER DAFOE: In the discussions of the last three or four years it has been evident the provinces that felt they had a claim upon the Dominion for loans to enable them to meet maturities regarded that as something which was due them without any corresponding controls of any kind.

MR. LEONARD: I think that is quite true, Mr. Dafoe, but it does seem to be a sound principle that for one body to tax, to give money to another body to spend or to loan money without any security is bad. And it is an endeavour to reconcile that principle with the need, the undoubted need, for assistance in certain cases.

COMMISSIONER DAFOE: Take the case of a province which has more or less said in the past and might say in the future, "We want a loan to meet a maturity and we do not submit to control, and if you do not give us the loan to meet the maturity we will default, thereby affecting the credit of all Canada." What would you say to the complication in that case? Would a default be preferable to the other course?

MR. LEONARD: I do not know that one can answer that categorically yes or no. One has to take into account the considerations in the individual case. After all, that is what happened when Alberta defaulted and it was thought that the only thing that could be done was to let them default. On the other hand other provinces have accepted loans with reasonable terms. I was prone to use the phrase that this Commission might be merely another example of a system of checks and balances under a federal system, but my friend, Mr. Shoard, added that it might be inferred that it was a case of the Dominion issuing the cheques to pay

the provinces' debit balances. But, broadly, the idea is to have some further check in the system as contrasted with our present system.

COMMISSIONER ANGUS: Has not an agreement under Section 105A of the Australian Constitution become almost a method of constitutional amendment and is itself harder to change than the constitution, as it is multi-lateral?

MR. LEONARD: I have not quite considered that. That is an implication within the agreement, that changes might be made within the agreement, or which result in certain changes in the financial arrangements between the states and the Commonwealth. It might be put in another way, that it is merely an addition of a balancing provision to the rigid provision that is otherwise set out in the constitution. It provides for a certain degree of flexibility but I think it must construe the flexibility within the rigidity that otherwise takes place.

COMMISSIONER ANGUS: Is not this sort of flexible agreement easy to make but hard to change? I mean, you can change the Australian Constitution, one of the states dissenting, but you cannot change a multi-lateral agreement without the consent of every party to it.

MR. LEONARD: Yes, that is true.

COMMISSIONER MACKAY: Have you given any consideration, Mr. Leonard, to an advisory or loan council with purely advisory powers?

MR. LEONARD: I do not think that we had considered it just from that standpoint. It might be helpful. Actually of course it comes down to a question of whether or not the provinces would agree to the terms. In a sense this Advisory Commission of course is purely advisory. A Loan Council such as is suggested here would be dependent upon the provinces agreeing to the terms and if they agreed naturally there is no objection to them being bound then by

their agreement.

COMMISSIONER MACKAY: Have you any opinion on the value of a loan council which has simply the power to give its opinion upon any particular loan the province might happen to want, the terms of the contract for the purpose of the loan, but which had nothing to do with bringing down the interest rates of the province? Would the provinces use it?

MR. LEONARD: I think that is rather beyond my province to answer because it really does depend upon whether they would or would not agree with the advice of the advisory loan council and that depends upon the powers that be, who are in charge of their individual provinces.

COMMISSIONER ANGUS: My impression is that in Australia the influence of the Loan Council was greatly extended by the action of the banks, that the powers of the council did not extend beyond day to day borrowing or the borrowing to cover a deficit, but that the banks refused to make such loans without colateral security of a type that would have to be authorized by the council.

MR. LEONARD: That is what forced the financial plan in 1931, the fact that the Commonwealth Bank took that attitude.

COMMISSIONER ANGUS: Do you think the powers of an Advisory Council might, in fact, be increased in Canada, for instance, by somewhat similar action? That is to say, loans that had not received its advice or its sanction might be hard to place.

MR. LEONARD: Of course, the compulsory feature of the Loan Council was in effect before the banks took that attitude. It went into effect in 1928, and prior to that time the Loan Council had been an Advisory Council. And perhaps a more careful analysis of how it worked as an

Advisory Council might enable one to answer that question better. I had assumed that probably the fact that it did result ultimately in a compulsory loan council, a definite rigid loan council, indicated that the Advisory Loan Council had not operated to full perfection. Although, that again is subject to the fact that it only became a rigid loan council when the Commonwealth took over the states' affairs and naturally, in assuming that obligation it was necessary to have a more definite control. The Advisory Loan Council in Australia in its operations up to 1927 was, I think, primarily for the purpose of orderly marketing, or so that they would not be put on the market at the same time. As to whether or not it endeavoured to suggest that states should not borrow for certain purposes or should not borrow beyond certain amounts, I am not very definite, but I do not think it entered into that field. I think it operated more in the manner that we did during the war, when a certain amount of orderly marketing of our provincial and Dominion obligations was undertaken.

THE CHAIRMAN: Thank you.

COMMISSIONER MACKAY: There is one question here, you say, "Except in war-time orderly marketing has not constituted a real problem." Does that apply to municipal borrowing as well?

MR. LEONARD: I think to my knowledge that is so, Dr. Mackay. I am not speaking about the difficulties of marketing, where credit may not be good, but where credit is good the question of orderly marketing I do not think has been a problem in Canada.

In Section J we deal with the question of municipal debt and municipal taxation, with an appreciation of the fact that it is not probably directly a matter on which the Commission can make specific recommendations, but it is

a factor entering into the provincial situation. And that is set out on page 61, in the first paragraph, where we point out that it is the province that delegates these powers to the municipalities and there the total tax imposition by the provinces, the amount of debt incurred by them, and the total cost of government responsibilities to the citizens of the provinces are understated if this delegation of powers, duties and responsibilities to municioalities is not taken into account.

The next paragraph sets out the holdings of our institution in municipal debentures, $168,289,627, out of a total net outstanding municipal obligation of $1,178,411,356.

THE CHAIRMAN: You hold about 15 per cent?

MR. LEONARD: Yes, Mr. Chief Justice.

"The Place of Municipalities in the Provincial Structure:

In presenting a composite picture of the municipal situation in Canada, difficulty is experienced because of the lack of uniformity in systems of municipal organization and in forms of presentation by the various provincial Departments of Municipal Affairs. This is a matter which is engaging the attention of the Dominion Bureau of Statistics."

The next paragraph:

"Furthermore, there is diversity as between provinces in the services that they have delegated to the municipalities and in the regulation of the exercise of their powers and to a lesser extent in the allocation of revenues to meet the costs of their responsibilities. This will be seen from the following analysis."

Then follows an analysis of the avenues of expenditure for which responsibility has been delegated to municipalities by the provinces. The first paragraph indicates the various

obligations, streets, sidewalks, etc.

> "A reference to Appendix "A" listing the various levies in certain provinces illustrates the variety and character of the purposes for which municipal expenditures are incurred."

That is the Appendix that really deals with the prior liens, but it is illuminating in considering the various things that municipalities do in the three prairie provinces. It is not typical of all Canada but it is an indication of what municipal government covers.

THE CHAIRMAN: Do you make any suggestion to meet that situation?

MR. LEONARD: When we come to the conclusion in connection with this municipal section I think it might be summed up that we recognize the situation is so varied, so lacking in uniformity, that it really comes down to a question of each province dealing with its own municipalities, and outside of general recommendations as to the idea of a better system of municipal finance generally, we have not attempted to make any specific recommendations, because we thought probably this commission had sufficient to do without endeavouring to deal with a number of very difficult individual problems.

> " Notwithstanding that municipalities are not obliged by the legislation to give the local services, they generally do so or are forced to do so by public opinion, which recognizes that services of a local character are properly a function of the municipalities. Generally speaking, the provinces recognize this public opinion and content themselves by their legislation to granting authority to municipalities and to regulating the manner in which these local services are to be carried on by the

municipalities, if the municipalities elect to undertake them. There is no obligation placed upon municipalities by the provinces to provide for many such services as are generally carried on by municipalities. The situation is rather that, if the municipalities do not undertake that type of service, the residents may not have them, since the provinces have not provided them, having contented themselves to giving authorization to municipalities to give the service. There are exceptions to this general situation, particularly in respect to matters of public health, education, hospitalization, care of the poor and indigents, etc., as will be discussed subsequently.

If it is be assumed that functions of government by the provinces involve the provision for such local services as are carried on generally by the municipalities, it follows that the provinces themselves could provide them directly without the agency of the municipalities, as is being done already by the provinces in their municipally unorganized territories. That they have been delegated to municipalities would appear to be only a matter of convenience to the provinces, in the hope that they may be carried on and supervised better by smaller units with local knowledge of conditions. As between municipalities in the same province and as between municipalities in different provinces, the extent of the local service given is not uniform. Some municipalities provide more and better service than do others, depending upon the local conception of need, desire, or ability to pay.

Education. Provincial legislation requires

municipalities to provide elementary and secondary educational facilities and to operate them in accordance with the rules and regulations prescribed by the provinces, little discretion in the matter being left to the municipalities.

School operations are carried on by elected boards of school trustees for each school district. In some provinces the school districts levy and collect their own taxes, while in others they make a demand upon the municipal council for the monies they require and the council levies for the monies so demanded. Generally speaking, although not uniform, municipalities are required to pay over to the school districts for whom they levy the amount of the levy irrespective of the amount of school taxes collected. Municipal councils have no control over school expenditures or the operations of the board of school trustees, resulting, in many cases, in a lack of coordination of effort in relation to the aggregate cost of municipal and school expenditures and consequently to the burden of taxation which the citizens of the locality are called upon to pay."

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(Page 6941 follows)

"Social Services. These may be described as child welfare, old age pensions, mothers' and widows' allowances, hospitalization, sanatoria, mentally incompetents, care of indigents and unfit. They are matters which provincial legislation, while not uniform, requires municipalities to meet part of the cost in varying degree, depending upon the type of service. The contribution of the municipality may be made to the province or directly to institutions undertaking the care, such as hospitals, sanatoria and welfare societies, or through the financing of municipally owned institutions.

Coming down to the last paragraph:

"Unemployment Relief. The care of the unemployed is by custom, if not by legislation, in all provinces one of the services which the municipalities are called upon to perform. Although the practice is not uniform as between provinces, either as to the scale of relief and methods of granting the same, the provinces require their municipalities to administer relief and to provide the necessary funds, not only for relief itself, but also for its administration.

To assist their municipalities to meet the expense involved, the provinces contribute by way of 'grants-in-aid' a portion of the expense. The contribution of the province covers only relief itself and does not cover costs of administration or of special assistance, such as drugs and sundry items. The grants-in-aid are not on the same uniform scale as between provinces, nor are they uniform as between municipalities in the same province--they vary at the discretion of the province.

"There is no uniformity as to the scale of relief granted either as between municipalities in the same province or as between municipalities in different provinces. Some municipalities adopt higher scales than others, depending upon local circumstances and provincial regulations as to minimum scales.

In earlier years the cost of relief, including administration, did not represent a large outlay by municipalities and did not require provincial assistance, municipalities generally being content to meet the situation by such local means as presented themselves. In recent years, however, the problem of relief has reached such proportions that, notwithstanding provincial assistance, municipalities generally have been required to make large outlays for this purpose, in addition to the ordinary municipal requirements and social service charges, at a time when it was becoming increasingly difficult for them to collect taxes.

Looking at the situation from the municipal financial angle, the reasons causing unemployment or indigency and the theoretical responsibility therefor matter little, the important fact being that there are persons unable to provide sustenance for themselves and that accordingly someone has to take care of them. Up to the present municipalities have been required to undertake the responsibility and the cost, with provincial assistance, irrespective of their ability to finance the same."

The next paragraph deals with sources of revenue given to the municipalities by the provinces. It shows that these sources are given by provincial legislations

and that they may be diminished, increased or withdrawn by the provinces.

Reading from the next paragraph which is headed taxation of real estate, I quote:

> "Taxation of Real Estate. The taxation of real estate is the main source of revenue made available to municipalities by the provinces. Our examination of the published reports of the Departments of Municipal Affairs of the various provinces leads us to believe that it is not possible to state with accuracy what is the actual proportion of total municipal revenue obtained through the taxation of real estate. The Commission has had presented to it information on behalf of various municipalities and other bodies in this respect, and in some cases an estimate of the proportion of total municipal revenue obtained through taxation of real estate has been submitted. While unable to suggest a figure, our examination of available data leads us to the conclusion that it is the main source of income available to municipalities throughout Canada.
>
> Provincial legislation and regulation governs the taxation of real estate, which is almost entirely allocated to municipalities, although in some provinces it is also made to serve as a source of revenue to the province, usually through the agency of the municipalities. The basis of assessment, the levying of rates, the manner of tax collection, the rates of penalties and discounts, the methods of sale for non-payment of taxes, and such matters as exemptions, limits of taxation, local improvement and special taxation

"are all governed by provincial legislation. The provincial law customarily makes municipal taxes a charge on the property in priority to mortgages or other prior liens.

The weight of taxation on real estate is not uniform as between municipalities. This is the case not only because of the application of varying mill-rates and the different percentage of gross assessment made taxable, but also because gross assessment represents in the main only the local assessor's conception of value. The determination of value is at best a difficult question, which fact is recognized in practice by seeking to make whatever value is determined upon equitable as between different properties. It follows that the amount of taxes expressed in dollars and cents is the true standard by means of which the burden of taxation on individual properties in a locality can be weighed in comparison with that in another locality. To endeavour to apply this standard in an attempt to determine the weight of taxation on real estate would be a colossal task, and it is difficult, therefore, to prove by means of statistics that taxation weighs too heavily upon real estate. There are, however, certain existing factors which lend weight to that view, as summarized briefly below:

(1) The decreasing tax base in many municipalities because of the reversion of property to the municipality as the result of non-payment of taxes. While it is true that a substantial proportion of these reversions is represented by outlying property and so may be said to be a natural con-

"sequence of over-expansion of individual municipal boundaries, the submissions of municipal bodies already made to you would indicate that considerable property closer in and of an improved type is now in the process of reversion.

(2) The large accumulation of unpaid taxes may be said to be general through municipalities in Canada. If it be assumed that citizens desire to pay their taxes and so protect their property, it would seem to follow that non-payment of taxes is due to non-ability to pay, either because of lack or insufficiency of income or too heavy taxation in relation to income.

(3) Investigations in the case of adjustment or prevention of municipal default in individual cases in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec led to the conclusion that, in those particular cases, real estate was called upon to bear too heavy a burden. Other factors involved in these particular cases suggested that they might be considered to be representative of the average standard.

(4) Real estate has lost its attractiveness as an investment and it is difficult to find buyers even at prices that represent a substantial discount from either cost or replacement value.

(5) Demolitions are going on extensively in many cities for the purpose of minimizing tax burdens and without any corresponding reconstruction such as would be typical of progressive development.

The effect of the delegation to municipalities of a large share in the maintenance of government

"services when taken together with the imposition of taxes on real estate as the chief source of municipal income is that real estate carries not only the burden of such services as for example fire protection, garbage collection and water supply that may be directly attributable to its use, but also a disproportionate share of the cost of other services, such as relief and education, that are not so attributable. It is apparent that there are classes of citizens using the facilities provided by municipalities without contributing directly to the cost of such facilities, and that, were these sources tapped or taken full advantage of, assuming no increase in expenditure, a relief in the taxation of real estate would follow."

Then follows a description of sundry sources of income.

THE CHAIRMAN: Do you suggest anywhere what form this other taxation should take?

MR. LEONARD: No, Mr. Chief Justice, once again we are up against the question of infinite variety in dealing with a subject which depends upon local circumstances.

I continue to quote from the brief:

"Sundry Sources of Income. While not entirely uniform, municipalities generally have available such sources of sundry income as licenses, fees, fines, poll taxes, and road taxes. Business taxes are also levied on business, professional, financial and commercial enterprises in relation to the space occupied in carrying on business and usually arrived at on the basis of floor space occupied, rental value, or a percentage of assessed value.

In the next part of the brief special sources of income which are extraordinary are set out.

"Municipally Operated Utilities. Where municipalities operate such utilities as quarries, ferries, light and power, water, hospitals, markets, transportation, gas, etc., the profit may be available to the municipality in reduction of general taxation, or the loss become a charge on general taxation. The use of utility profits for reduction of general taxation is not recognized uniformly throughout Canada, as there exists a school of thought which holds that such profits should be used only for the purposes of the utility or the reduction of utility rates of charge.

Special Sources of Income. These vary according to the locality and may take the form of fixed amounts or a percentage of revenue, and usually apply to some special form of business operating within the locality, such as privately operated utilities, grain elevators, private bridges, etc. The general practice as between provinces is not uniform.

Some municipalities may enjoy some special form of revenue, such as income tax, sales tax, or motor vehicle license fees, but these sources of income are extraordinary and the exception to the rule.

Provincial Assistance. While not uniform as to amount or method, the provinces assist their municipalities by grants or contributions for such purposes as education, hospitalization, libraries, and unemployment. Certain provinces give further assistance by way of road grants, special subsidies,

"or a share of specific revenue collected by the province.

Municipal Budgetary Difficulties:

The lack of readily available uniform statistics makes it impossible to present a composite picture of the budgetary difficulties of municipalities throughout Canada. The Commission has had presented to it submissions on behalf of individual municipalities and municipal organizations tending to show their difficulties. While it is true that many municipalities are experiencing budgetary difficulties, it should not be assumed that this situation exists uniformly throughout the provinces.

Budgetary difficulties may result from lack of sufficient revenue or from too-heavy expenditures. The sources of revenue and avenues of expenditure, both obligatory and permissive, abailable to municipalities, have been reviewed already herein.

There is a popular conception that taxes imposed by municipalities are too high , that they cannot be increased, and that, on the other hand, they must be reduced. Coupled with this popular conception, there is in evidence a persistent demand on the part of the general public for more and better municipal and educational services, irrespective of ability to pay for them. Certain types of service have come to be looked upon as absolutely necessary, even when inability to provide them is in evidence. This disinclination on the part of the general public to do without or with lesser services so as to reduce expense to ability to pay, and in that way achieve a balanced budget within the measure of reasonable taxation,

"is a matter of grave consequence to Canada, its provinces and their municipalities. There is need of a recognition of the fact that sustained services can be had only so long as ability to pay for them or sound credit are present, and that, in the last analysis, taxation of one kind or another is the only source of income with which to provide services.

Many municipalities have endeavoured to continue to provide services on the same scale as was permitted by higher income, notwithstanding that their main source of income, namely, taxation of real estate, was showing signs of having reached the point of diminishing return. They failed to recognize that if services are to be given they must be taxed for. While this has been the situation in many municipalities, there are many other municipalities who have cut their services drastically in line with their incomes and who have been able also to make some reduction in taxation. It is believed that it is not possible to generalize and that a proper appreciation of the situation of municipalities involves an appraisal of the position of each municipality in relation to its individual problems.

In discussing the budgetary difficulties of municipalities, it is necessary to recognize that, to a very large extent, they are due to the large amounts municipalities are called upon to provide for relief. The control of such outlays is beyond action by the municipalities. There are, of course, individual cases where administration may be lax, and where relief granted may be in excess of provin-

"cial standards, but it is felt that, even if all abuses were corrected, provision for relief would still be a major source of municipal budgetary difficulties. It is necessary to recognize also that, apart from provincial 'grants-in-aid' for relief or their equivalent, the municipalities have been given no additional source of revenue with which to meet this new and heavy expenditure.

Some of the means adopted by municipalities to meet their budgetary difficulties are described briefly below:

(1) Bank borrowings have been resorted to in an attempt to maintain the local conception of maximum tax burden and standards of operation. This has been achieved by the process of failing to levy on a cash basis with the result that it became necessary to carry over bank loans to the following year with its cumulative effect.

(2) Increased taxation has been attempted in some cases. That this means has not been resorted to in more cases is undoubtedly due to the local feeling that taxes on real estate should be decreased rather than increased.

(3) Reduction in upkeep and maintenance of public works such as streets, sidewalks, buildings, etc., has been resorted to also. The cost of making good this deferred maintenance is one of the problems of the future as the consequent deterioration will result in many cases in accelerating the time of replacement.

(4) Default and postponement of the payment of debenture debt has been considered to be one of the relatively easier means of meeting budgetary

difficulties by some municipalities. This has taken the form of default in payment of interest on princip[illegible] failure to make deposits to sinking funds, or the use of accumulated sinking funds to assist in current financing or in acquiring new capital works.

The budgetary difficulties of municipalities arise from either or both the insufficiency of revenue available to them or the amount of the cost of the services they are called upon to give or assist in giving. These difficulties can be rectified if (1) additional sources of revenue were made available, or (2) the duty and responsibility of providing some specific services were removed or (3) a less expensive standard of operation were achieved either by eliminating services entirely or by reducing them to a basis more approximate to ability to pay, or (4) provision were made for additional financial assistance from the provinces.

Municipal Credit.

Municipal debts, like other debts, represent promises to pay to be carried out in the future. They arise from the purchase on the instalment plan of services or facilities for use in advance of ability to pay cash and for enjoyment meanwhile. Were it not for these debts, municipal services as are known to-day would not exist to the same extent and local residents would not have had available the same services and facilities which are enjoyed by them now and which they desire to continue to enjoy. It is only necessary to con-

"sider that streets, sidewalks, sewers, roads, schools, water and light utilities, and almost all other capital assets, were purchased or constructed with the proceeds of borrowed money, to realize that to-day's municipal debt is due to the desire of residents of municipalities to enjoy services and facilities in advance of ability to pay cash for them.

There follows a table of the debenture debt, showing the division as between municipalities in the various provinces. The last paragraph on the page reads as follows:

"The different methods followed by the provincial departments of municipal affairs in making available municipal statistics make it impossible to present information setting out the purposes for which municipal debentures presently outstanding were issued. General observation and close contact with specific municipalities suggest that generally debentures were issued for such purposes as roads, streets, pavements, bridges, sidewalks, street lighting, sewers, watermains, waterworks plants, light and power systems and plant, hospitals, schools, markets, libraries, drainage, municipal buildings, police and fire protection exhibition buildings, auditoriums, rinks, street railways, public baths, etc. It will be apparent that, had the provinces not delegated the duty and responsibility for such services and facilities to municipalities, the debt incurred for such services and facilities would now be provincial debt and not municipal debt or the services and facilities would not be available. If it be assumed that the services and facilities represented by this

"municipal debenture debt are necessary and would have been undertaken by the provinces, one of the results of the delegation of these duties and responsibilities has been to understate the debt of the provinces. Since this delegation has not been uniform as between provinces, a comparison of provincial debts or a discussion of the relations of the provinces to the Dominion would be incomplete if municipal debts and municipal operations were omitted from consideration.

Provincial Control of Municipal Borrowings.

The provinces control by legislation and regulation the type, amount and purposes for which borrowings may be undertaken by the municipalities. In some provinces this control is achieved by setting up Boards, Commissions, or Departments of Municipal Affairs who are charged with approving or rejecting applications to issue debentures, while in others the control is effected by the Legislature itself. Legislation usually sets the limits of borrowing power, generally exempting from such limits debenture issues for local improvements and self-sustaining utilities or such special purposes as seed grain advances, it being assumed that, expected to be self-sustaining, they will not affect taxation. In those provinces where no general legislation applies, the provisions of individual charters govern.

It is believed that only one province requires the approval of an independent body for borrowing on current account. The provinces generally by legislation set a limit of borrowing for current purposes, being a percentage of the current tax

" levy, although there are refinements of practice in separate provinces.

Reverting to debenture issues, the limit of borrowing powers has been set usually at a percentage of assessment. Fluctuating assessments in the newer parts of Canada have made this limiting base unsatisfactory in many instances as municipalities in difficulties or nearing difficulties and claiming to be unable to balance budgets and pay existing debts, nevertheless find themselves with a borrowing capacity on capital account. In recent years and in the main, the controlling bodies have given relatively effective control to the financial side of borrowings on capital account. If there be any criticism, it would be that the need of facilities has outweighed the ability to pay for them. On the other hand, municipalities have sought successfully to circumvent this control by making application direct to legislatures. Further, it should be remembered that the effective control of municipal capital borrowings is a development of relatively recent years and that, accordingly a relatively high percentage of the existing debenture debt was incurred at a time when the need for supervision and control was not apparent. There is need, however, of effective supervision to the physical side of borrowing, so that projects for which borrowings are to be made by municipalities on extravagant, ambitious, or unnecessarily costly scales may not be permitted.

The control over capital borrowings by Boards, Commissions or Departments of Municipal Affairs is

"additional to the requirements that the property owners or burgesses must approve. There are cases on record where municipal councils have applied for and obtained legislation doing away with this requirement in specific cases and where legislatures of their own volition have done likewise.

Effective supervision and control over capital borrowings of municipalities is difficult of perfection. In times of prosperity and optimism, popular demand makes effective control difficult and is likely to show a disregard for need and an unconscious tendency for extravagance. In times of depression, actual or fancied need, pressed by popular demand, has a tendency to disregard ability to repay.

Default in Payment of Debenture Obligations.

It has been stated already that one of the easier means of meeting budgetary difficulties has been non-payment of debenture obligations. This means is stated to be 'easier' because it does not involve the municipality or its residents in immediate sacrifice or local repercussions. That the sacrifice must be greater ultimately is usually not considered. It remains a fact that debt is an expression of trust and confidence, and that once that trust and confidence are lost, it requires effort and sacrifice to regain them. Debtors are prone to overlook the fact that services and facilities now existing will not last forever and that they will require to be replaced. The investor is not likely to overlook easily the record of a debtor who has taken the easier way out of his difficulties and sought to make the investor in

"effect pay for the services and facilities which the debtor retains in his possession and continues to enjoy.

There are many causes of default. Among the most important are the following:

(a) Over-expansion and over-optimism in the past with their attendant provision for services in advance of need, coupled with the failure of past hopes and expectations to materialize.

(b) Undertakings and projects carried out extravagantly and on a scale of cost not required by need.

(c) Failure to reduce expenditures in proportion to falling revenue and failure to balance current budgets on a cash basis in recognition of the principle that expenditures of the year should be limited to collectible revenues of the year.

(d) Lack of planned financing in undertaking borrowings and their repayment, resulting in making debt charges too heavy in certain years and too low in other years.

(e) Participation of municipalities in unprofitable business venture, such as housing schemes, industrial guarantees, etc.

(f) Change in character of the municipality and the industries supporting it.

(g) General economic conditions making the collection of taxes difficult.

(h) Heavy outlays for relief and social service Charges.

"While all or a combination of some of the above causes may be present, relief and social service charges have become the most important single contributory cause of default by municipalities in recent years and there are indications that the continuance of this burden on the present scale will precipitate further default by municipalities.

Apart from its effect on future credit, default results in hardship and suffering to thousands of small investors who can ill-afford the loss and whose ability to meet their own commitments is thereby greatly diminished. Municipal debentures are not an investment of the wealthy. They are an investment of the thrifty of small means and of institutions collecting these small means for investment. This position is recognized clearly by the Trustees Acts of the various provinces, which Acts make municipal securities one of the investments in which the funds belonging to estates and their dependents must be placed.

While at one time in Canada municipal debt in default of either principal or interest amounted to approximately 10 per cent of the municipal debt outstanding, the situation has improved considerably to the point that, at the present time, approximately 7 per cent of that debt is in default. To the best of our information, the situation in each province is estimated below: (Once adjusted, with or without loss, the municipality is no longer considered in default.)

There follows a table showing that Ontario has the largest amount of principal debt. It amounts to $50,000,000,

representing 10 per cent of the gross municipal debt, Saskatchewan, as might be expected, has the largest percentage of the gross debt. Quebec, according to these figures, has the smallest percentage of gross debt, and Nova Scotia and New Brunswick and Prince Edward Island, have no municipal debenturesiin default, nor have they had any, to my knowledge.

Continuing to quote from the brief, I read:

"The improvement in the situation referred to is due to the adjustments which have been made by the debenture and bank creditors. The subject of adjustments is dealt with herein in greater detail.

The existence of municipal defaults in a provinee has an indirect effect on the credit of a province and its people. Municipal defaults reflect the attitude of the people of a province towards their creditors or is an indication of conditions in that province. With such a warning sign before him, the investor is likely to appraise more keenly the credit of the province and its people and to be much more cautious in his commitments in that province. Further, the lack of available credit to municipalities is reflected in the measure of assistance which a province may be called upon to give its municipalities if they are to continue to give services to their people.

The credit of Canadian municipalities has been adversely affected by the extent of the default situation. The fact that it has been necessary to change the terms of debenture contracts with monetary loss to the investor has resulted in a complete loss of credit in many instances and in others to at least a temporary loss. Apart from

"the loss of credit, there has developed a serious loss of confidence in municipal securities and investors no longer regard them as primarily gilt-edge and to be invested in with a minimum of risk. This loss of confidence is reflected in the difficulty experienced in marketing debentures of some municipalities which have not defaulted. If marketable at all, it is only after the most exacting scrutiny of the risk involved.

In past years the determination of the risk involved in the debentures of municipalities was a comparatively simple matter. The experience of recent years, however, has changed this situation. The added burdens of relief and social service charges which municipalities have been called upon to bear, without additional sources of income and at a time when existing sources of income were becoming more difficult to collect, have decreased the margin of security and to a considerable extent have undermined the foundation of municipal finance in that the ownership of real estate has become less desirable because of high taxation. Under such circumstances, municipal securities are becoming unattractive.

The apparent lack of concern with which some municipalities contemplate default and the uncertainty which exists as to the powers of the provinces and the municipalities to enforce reduction in interest rates and cancellation of debt irrespective of the consent of the creditors or a majority of them, and without regard to the position of the investor and the unfairness to him resulting from default, have engendered a sense of insecurity and

"fear in the mind of the investor that his savings may be arbitrarily reduced or taken away from him. As a consequence, he hesitates to entrust his savings to municipalities and it is probable that he will continue to do so until the situation is clarified.

The Adjustment of Municipal Defaults:

The adjustment of municipal defaults is a problem of some physical magnitude and one which requires much effort and time. It is proposed to review how it has been attempted to solve the problem.

Machinery for Adjustment.

As a matter of general practice, the holders of debentures issued by a municipality which has defaulted in the payment of interest or on principal of its debentures move to form a Protective Committee. The formation of such a Protective Committee may result from a meeting of known debenture holders or from the voluntary action of a group of debenture holders who undertake to negotiate an adjustment and to submit its principal provisions to debenture holders generally with the request that they acquiesce in the proposal. Protective Committees may be formal in character, that is, supported by the deposit of debentures with a depositary acting for the Committee, or they may be informal and not supported by deposit of debentures. Whether formal or informal, it has been the general practice for such Committees in Canada to refrain from approving proposals without first submitting the matter to the actual holders for their authority. Individual circumstances

"govern the status of Committees. The fact that municipal debentures are mostly in bearer form and that the holders are usually scattered and oftentimes resident outside of Canada, presents a problem of organization, contact and expense if debenture holders in sufficient majority are to be advised of the proposal and their support obtained. Correspondence, advertisements, and the cooperation of the investment dealers, banks, etc., are required, in addition to efforts of the members of the Committee and their representatives.

The provinces of Alberta, Saskatchewan, Manitoba, Ontario and Quebec have set up Boards or Commissions who are empowered by legislation to ratify and give legal effect to adjustments to which a set percentage in value of debenture holders have agreed."

THE CHAIRMAN: Has not British Columbia something like that, too?

MR. LEONARD: Mr. Fortin is more familiar with the details of this than I am.

MR. FORTIN: British Columbia has only a department of municipal affairs, it has not set up special boards.

THE CHAIRMAN: Perhaps, British Columbia has passed special Acts, has it?

MR. FORTIN: Later on in the brief it is pointed out that the British Columbia Department of Municipal Affairs does this work.

MR. LEONARD: Returning to the brief, I quote:

"Alberta and Quebec call for the consent of 60 per cent, Manitoba and Saskatchewan 51 per cent, while Ontario provides that if 33 1/3 per cent disapprove, within 60 days, the Ontario Municipal

"Board may not ratify a proposal. Further, the local government board of Saskatchewan is empowered to make certain temporary annual adjustments unless 20 per cent of debenture holders disapprove within 30 days and the Municipal and Public Utility Board of Manitoba has similar, although slightly different, authority. Legislation in Saskatchewan also purports to empower the Local Government Board to order adjustments in the case of rural municipal organization debenture debts without reference to or the consent of debenture holders. In British Columbia the consent of 51 per cent is required to be signified to the Department of Municipal Affairs and the Lieutenant-Governor in Council. Notwithstanding this provincial machinery, it is sometimes necessary to obtain ratification of a plan of adjustment by special legislation because of some doubt as to the sufficiency of existing authority to deal with specific terms of a plan of adjustment or for other reasons."

(Page 6966 follows)

"Some doubt exists as to the constitutional validity of the powers of the provinces and their Boards and Commissions to enforce the terms of plans of adjustment on those debenture holders not actually consenting or those actually dissenting. While this difficulty exists and court action is in process in certain cases to test the validity of legislation of this type, it is only in recent years that the point has been brought up. Without minimizing the importance of the legal points involved, it is a fact that many adjustments have been made in past years where 100% of the debenture holders eventually consented and where no difficulty of this sort was encountered, and that further plans of adjustment are in process of being submitted to the debenture holders for the approval of the necessary majority of them."

THE CHAIRMAN: Mr. Leonard, in reference to this point you stress on page 81, the question of the constitutional validity of this procedure, is it your view that that question should be cleared up? Of course, it ultimately may be cleared up by a decision of the Courts, and if a decision of the Courts should be that the Provinces have not got this power, do you think the power should be conferred upon them?

MR. LEONARD: I think that our feeling is, it is desirable to have provincial legislation of this type providing for some machinery for the adjustment of municipal debts upon a percentage of creditors consenting, and it would only be in the case of such machinery that now exists being undoubtedly invalid, that we would consider it necessary to have other machinery. We have looked at the question from a practical standpoint rather than from a legal standpoint. The ultimate objective, in our

mind, is to get rid of all that legislation; rather, to put municipal credit on a basis where we may not need it as a permanent part of our statutes. For example, in our Maritime Provinces, where they have no such legislation because they have no defaults. That being our objective, it is desirable to not have any more legislation than is necessary.

THE CHAIRMAN: Of course, if by any chance the Court should hold that the province could not constitute a Board which could make a reduction of interest obligatory on a dissenting minority, you would then have difficulty with all these re-organizations.

MR. LEONARD: So far we have, of course, managed to get along with the existing machinery. Just what would be the best way of dealing with that situation, if it develops, I am not prepared to say. Unquestionably, we would want some machinery to deal with the matter.

COMMISSIONER DAFOE: Has your Association come to any decision as to what percentage of debenture holders should consent before there is compulsion of the remainder?

MR. LEONARD: I would like Mr. Fortin to speak to that, with his experience on the matter.

COMMISSIONER DAFOE: The percentages vary, apparently.

MR. FORTIN: We have usually left it to the respective provinces so long as the percentage was in the case of consent, at least, a majority. In the case where the legislation does not call for consent, but rather dissent, the percentage depends on the delay which is given to dissent. For example, in Manitoba now, the dissent is 20% within sixty days; in Saskatchewan it is 20% within sixty days; in Ontario it is one-third; so long as the percentage arrived at, whether by dissent or consent was of such a nature to give the debenture holders, from a practical point of view, the opportunity to make known their

views. We have no definite percentage.

COMMISSIONER DAFOE: We were told in Victoria that an adjustment on this basis was being contested in the courts. Are there many such cases in the courts?

MR. FORTIN: Well, Mr. Dafoe, the case in Victoria is not on behalf of debenture holders, to my knowledge, the debenture holders in the Victoria case have not attacked the plan. The situation is rather that some of those who were appointed as sinking fund trustees under the plan, doubting their powers to act as trustees under the plan, have sought to make a test case out of it. But the debenture holders, I think, have consented so far to approximately eighty percent of the debt, and they have not, nor those who have not approved, taken any action to upset the plan. The only other case, to our knowledge, is in the case of Windsor, where certain holders have attacked the validity of the Amalgamation Act, which amalgamated four municipalities to the new City of Windsor. There were two actions; the first one was dismissed in the lower Court, and that decision has been appealed. Meanwhile a second action was brought up and the hearing was deferred pending the hearing on the first appeal. The appeal in the first case was heard in March of this year, and Judgment has been reserved. Accordingly there has been no judgment handed down. Those are the only two cases I know of, and the Victoria case.

MR. LEONARD: Then at the bottom of page 81:

> "Basis of Adjustment. Debenture creditors have proven their willingness to readjust the terms of their debenture contracts to meet the necessities of individual situations where inability to pay exists. Adjustments already made leave no doubt as to the preparedness of debenture creditors to meet willingness to pay according to

"ability by recasting the terms of their debentures.

Granted willingness to pay, the basis of adjustment is ability to pay. Ability to pay is arrived at by negotiation with the debtor municipalities following detailed surveys of the financial affairs of the municipalities conducted on behalf of debenture creditors. These surveys take into account all factors bearing upon the finances of the municipalities and involve consideration of past experience, immediate conditions and potential development. Where such survey demonstrates inability to pay in accordance with the terms of the debenture contract, plans of adjustment are developed in negotiation with the debtor municipality. These plans of adjustment seek to meet the necessities of each situation and to embody such terms as will subject the investor to the least possible loss commensurate with the debtor's ability to pay. They are designed to enable the debtor to pay his debts according to his ability.

It has been stated already that ability to pay is arrived at by negotiation with the debtor municipality, following detailed surveys of the financial affairs of the municipality conducted on behalf of debenture creditors. These surveys involve an exhaustive review of the finances of each municipality concerned and of all factors relevant to ability to pay. If the Commission should be interested in the type of surveys made in recent cases, we shall be glad to file copies of the report of such surveys as were made and which resulted in adjustment of such cities as

"Victoria, Calgary and Edmonton. We shall also be glad to file with the Commission copies of the report in the case of Moose Jaw, where negotiations for adjustment are still pending. In a general way these reports indicate -

(a) That the taxation of real estate in those particular cases has reached its limit and that it is unduly burdensome under present economic conditions;

(b) That the cost of relief and social service charges have become one of the most important avenues of expenditure, making it impossible for the municipalities to provide for their ordinary services and to meet their debt charges on their present basis prior to adjustment.

(c) That these particular municipalities have made or have undertaken to make economies in municipal operations, but that the sufficiency of economies in respect to schools is questioned;

(d) That the cause of financial difficulty is not the amount of debt or the annual service of the debt, but rather that additional burdens imposed after the incurring of debt have resulted in insufficiency of income;

(e) That the immediate maturities of debentures would prove to be too large for the provision made for debt retirement including the character of investments made for sinking fund."

COMMISSIONER ANGUS: In relation to clause D. suppose there were some change in legislation by which

a province assumed burdens that had previously been on the municipalities, - that is a possible contingency, and we have had requests before us from municipalities that relief should be paid entirely by the Dominion, and so on, - if any of these changes were made, would it involve reopening any settlements that had been arrived at, or do the debenture holders forego their chance of an improvement of that sort?

MR. LEONARD: It is a final adjustment as far as the debenture holders are concerned.

"The particular surveys referred to above were made by officials of this Association acting as representatives of Debenture Holders' Committees in each case. The reports made in these particular cases were voluminous, but is is not intended that it be assumed from them that all reports in all cases need be or are as voluminous, as the size of reports depends on the individual case. Further, in some instances surveys made and information submitted by representatives of provincial Departments of Municipal Affairs or provincial Boards and Commissions are accepted and acted upon after investigation and interpretation by representatives of Debenture Holders' Committees, without separate surveys being undertaken by representatives of Committees.

It seems pertinent to point out at this time that the Association has interested itself in the problem of municipal finance and adjustment of default by municipalities in Canada since the formation of the Association in 1916. As large investors in municipal debentures, it has been necessary for members of the Association to follow closely the

"municipal situation through the machinery of the Association and to act in the protection of their investments in municipal debentures. In so doing it has been necessary to seek and obtain the co-operation and assistance of individual and other debenture holders and of investment dealers in Canada, Great Britain and the United States. The Association has been instrumental in the formation of Debenture Holders' Committees and has made available the services of its staff in conducting surveys, in carrying on negotiations, and in providing the secretariat of Committees."

Possibly I might add that that has been done without expense; that is, any charges that are made on an adjustment are only actual disbursements, with no charges for fees or anything of that nature whatsoever.

"For the information of the Commission, we have set out in Appendix "C" a summary of the types of adjustment made."

The summary in the Appendix on page 18, simply gives in short form, the adjustments in Windsor, Winnipeg Suburbans, Calgary, Edmonton and Victoria, Kingsville, Leamington, Sudbury, Leaside, and Niagara Falls, as various types of adjustment, showing that this is made to fit the particular conditions.

Summary:

"In this section of our presentation we have endeavoured to review the municipal situation in Canada with the thought that such review might prove useful to the Commission within the scope of its enquiry and in relation to such questions as allocation of revenue sources and governmental burdens of the Dominion and provincial governments, the character and amount of taxes collected from the people, provincial

"expenditures and public debts, and the place occupied by municipal institutions in the scheme of provincial governmental activities.

It is not easy to form any composite picture of municipal government or to deduce any general observations from a situation that exhibits an infinite variety in detail. We have already expressed the view that provincial control of municipal borrowings on capital account has in our opinion justified itself and been a useful supplement to the voting control of the rate-payers, although there has been a certain tendency for control to be circumvented. We have pointed out also that in only one province is such independent control exercised over borrowings on current account.

The fact that it has been found desirable to institute some independent control of municipal borrowing tends to confirm the impression that our whole system of municipal government has not been designed to encourage or enforce that proper regard for economy that should characterize local government bodies. The growth of our large cities and the consequent relative increase of renting as contrasted with home owning, together with the concentration on real estate taxation as the chief source of revenue, has tended to create a gap between the composition of the constituency on whose opinion local government depends and the group contributing the major portion of its revenues. If at one time the owners of real estate, as a group, were sufficiently representative of the community as a whole to exercise an effective control over expenditure, it seems clear that in many places they are no longer able to do so to-day.

"Thus the necessary counterbalance to the urge to extravagance in government expenditure, viz., the universal unpopularity of tax increases, cannot be said to have been automatically effective. And without some controlling factor being introduced we do not believe any re-apportionment alone of revenues and obligations can be expected to be an enduring solution or truly constructive.

We expect that your Commission will have available the fullest information about the systems of municipal government existing in other countries and particularly in Great Britain. We do not think any useful purpose would be served by duplicating that information here or attempting by a detailed analysis to discuss in what respects the British system might serve as a model for reforms in our own system. From our own experience, both as investors and as large taxpayers to a great number of municipalities, we are, however, convinced that reforms are necessary in the interests of municipal credit and municipal financing with particular reference to the incidence of taxation, and that if such reforms can be accomplished, they will remove serious obstacles."

Section K. is a summary of the whole brief.

"There are certain principles that should be followed if we are to have any sound system of public finance in Canada, no matter what division of revenues and responsibilities is provided in our system. We suggest that it would be of great benefit if your Commission would point out certain essentials, the disregard of which will render futile any plan to improve our public finance.

We mention the desirability of proper account-

"ing systems, including the drawing of a clear line between current and capital accounts, and the establishment of uniformity in accounts as between provinces and as between municipalities.

The balancing of the current account should be the constant objective of any government. While it may not always be possible to achieve, yet there is a serious danger in successive unbalanced budgets and our governments have been too prone to err in that direction. Similarly, it is desirable that a deficit should not be funded but should be treated as an expenditure to be met in the following year. Our aim should be to pay as we go.

Borrowing on capital account should be confined to cases where capital assets are created. Emergencies may arise when this principle cannot be followed, as, for example, in the case of a war. We could not have met our relief bills during the depression without borrowing in part. Nevertheless, moneys borrowed to pay for unproductive expenditures constitute a dead-weight debt carrying interest that must be paid out of future production. Every effort should be made to face such issues and to tax as we go along, recognizing that we cannot continue to pass on to future citizens the burden of our present unproductive expenditures.

In addition to confining capital account to asset-producing borrowings, provision should be made at the time of borrowing for the payment of it. Our provincial and Dominion borrowings have neglected the sufficient use of sinking funds or serial bonds. When an indebtedness is incurred, provision should start immediately for the retirement of it so that principal repayments will be reflected in the current account."

COMMISSIONER ANGUS: In your experience, have serial bonds been more satisfactory than sinking funds, or otherwise?

MR. LEONARD: In view of the fact that comparison is with respect largely to municipal debentures, I would like Mr. Fortin to express a view on that.

MR. FORTIN: The Western Provinces, that is, the municipalities in the western provinces, have mostly followed the sinking fund type. The Eastern Provinces, particularly in Ontario, it has been the serial. I think there is something to be said for both types. The serial bonds often-times make the amount of principal repayment,- inability to meet that,-the immediate cause of default, whereas had those particular bonds been on the sinking fund plan you might have been able to catch up and not be forced to default immediately. The difficulty with sinking funds has been the nature of the investments. The money has been put out on risks, sometimes on equally a risky basis, - they have borrowed for other purposes, in the sense that good securities have been sold to carry out "Borrowings", when and where there was no market, and where perhaps it would have been better if the borrowings had not been made. I feel it depends a great deal on the purpose for which the borrowing is made, principally the life-time. Similarly the general question of the rate of interest at which you might invest your sinking fund, if any. Our Canadian municipal sinking funds have been sinking funds to accumulate an amount to repay at maturity, rather than a sinking fund to purchase some municipality's own bonds and retire them. In a general way I think there is much to be said, - there are some cases where one is better, or the other is better, but generally speaking, in the recent refunding plans we have followed both types. In some cases we have used the sinking fund, investment of

moneys being by way of purchasing a municipality's own debentures for cancellation. In effect, a sinking fund, working serially, - a combination of both, - in Ontario adjustments we have borrowed on serial bonds on an annual schedule. In the Province of Quebec they have been on instalments, repayable by drawings varying amounts in each year.

COMMISSIONER MacKAY: I understand in Saskatchewan, there is a provincial control, - that is to say, control by the local government board over investments in sinking funds.

MR. FORTIN: Yes, the local government board in Saskatchewan controls both the purchase and the investment in sinking funds, or sale and change in those investments.

COMMISSIONER MacKAY: In your opinion, has that been an effective way of controlling investments in sinking funds?

MR. FORTIN: The unfortunate part has been that investments made generally by sinking funds, not only in Saskatchewan, are now not liquid because of lack of confidence; in other words, the investments themselves are probably sound, but with the breakdown of faith in municipal debentures the sinking funds across the country are in difficulty, because of the non-liquidity of their investments, in turn, caused by lack of confidence.

COMMISSIONER MacKAY: Saskatchewan is not a fair test of the system then?

MR. FORTIN: No, because the investment in sinking funds in rural telephones, telephone debentures in villages and towns, under ordinary economic conditions prior to this depression worked out satisfactorily, but since there has been no crop, no means to pay taxes, there has been a large number of defaults in Saskatchewan, - that is, in number. The result of that is that the sinking fund

holders may not get their money, although whether they will get that money in the future or not depends upon recovery. I do not think we can say that investment in those securities has been bad or good, it all depends on the price. The whole thing is linked up in that way.

COMMISSIONER SIROIS: How does the system work in the Province of Quebec?

MR. FORTIN: Do you mean the system of adjustment or repayment?

COMMISSIONER SIROIS: Repayment?

MR. FORTIN: I think it is working pretty well. It is only, of course, in recent years that the Quebec Municipal Commission really became active. I think it was about the same time as in Manitoba; whereas in Alberta and Saskatchewan they started about 1915 or 1916. In the Province of Quebec we have had relatively little difficulty with default. There have been perhaps four cities of no great size and the largest amount involved perhaps is about $3,500,000, to $4,000,000, in each case. What has happened is, a small number of municipalities in the newer parts of the province such as in the Lake St. John District and Gaspe Peninsula, where the breakdown of the pulp and paper industry caused lack of employment, lack of wages, and therefore inability to pay. Last week, for example, we adjusted one town in Quebec, and this week another city, leaving to-day only one city in default.

MR. LEONARD: Reading from the middle of page 87:

> "On the whole our governments have had a bad experience in guaranteeing obligations of other organizations. As a result of a similar experience many of the constitutions of the states to the south of us contain a prohibition against such guarantees. Unfortunate results have also followed the ventures of our governments into those parts of

"our economic field that are not ordinary functions of government. Generally such ventures are economically unsound, or they are in competition with private enterprises and are not as efficient. The history of government loans to farmers in Canada shows that the taxpayers have had to bear heavy losses without any contribution of much value having been made to our agricultural economy.

There is a certain maximum limitation on the amount any government can raise by taxation, and also on the amouht it can borrow. To the extent that governments use their taxing or borrowing powers for purposes that can be fulfilled by private enterprise, they reduce their capacity to take care of those functions that can be performed by governments only. A disregard of that fact has helped to cause some of our difficulties in public finance in Canada. We beg to summarize our suggestions as follows: -

(a) That the Dominion Government appoint an Advisory Commission for the purpose of considering applications by provinces for federal assistance, such Commission to function continuously in a manner similar to the Australian Grants Commission and to make recommendations to the Dominion as to grants, loans or guarantees, and the conditions and controls in connection therewith.

(b) Pending such appointment, the continuance of temporary aid where necessary under the recommendation of the Bank of Canada.

(c) While an amendment to the British North America Act is not necessary for the

"appointment of the Commission, it would be desirable to have an amendment similar to Section 105A of the Australian Commonwealth Act.

(d) That in view of the importance of those functions of provincial governments that they have delegated to municipalities, it is most desirable that where municipal credit in Canada is impaired it should be strengthened, and while this may be primarily an internal matter in each province, it is also one of the facts to be considered in dealing with provincial credit.

Unemployment relief has been the immediate cause of nearly every municipal financial difficulty in the last seven years, and such problems will continue unless there is an easement of the present burden where it is heaviest and a plan to take care of future periods of unemployment. We suggest also that there should be more adequate provincial control over the physical character of municipal undertakings requiring capital borrowings as well as over the financial aspects of such borrowings.

(e) A recommendation from this Commission as to the desirability of co-ordinating public finance in Canada, standardizing public accounts, and the classification of current, special and capital revenues and expenditures.

(f) A recommendation from this Commission as to the desirability of maintaining credit, balancing budgets, borrowing for productive purposes only, providing for re-

"payment of loans through sinking funds or serial bonds.

(g) A recommendation as to the importance of maintaining and respecting private credit so that it may be available at reasonable rates for the developing and maintaining full use of the nation's labour and natural resources through housing and other construction.

We conclude by point out that while there are certain essential functions in a modern economy that can only be performed by governments, yet the enhancement of the material prosperity of our citizens and the increase in their standard of living depends not so much on the expenditures of governments as it does upon the application of the labour, energy and intelligence of our people to our great natural resources, with the assistance of the credit afforded by their own surplus savings."

THE CHAIRMAN: The brief will be filed as Exhibit No. 272, and the Appendix as Exhibit No. 273,

EXHIBIT NO. 272: Brief of The Dominion Mortgage and Investments Association.

EXHIBIT NO. 273: Appendices to Part 11 of Brief of The Dominion Mortgage and Investments Association.

BY MR. ST. LAURENT: Q. Mr. Leonard, in view of the fact the brief deals with both public and private credit, there are one or two questions I would like to ask. The view taken by your Association is that there is a point beyond which the public credit cannot be stretched?

A. Yes, Mr. St. Laurent.

Q. And that it is in the public interest to have such safeguards as to the use of public credit as will conserve it for really essential purposes? A. Yes, Mr. St. Laurent.

Q. And one of the means suggested, would be this Advisory Commission, that might have to do with all such cases where provincial or municipal institutions would require the backing of the public credit at large. A. Yes, Mr. St. Laurent.

(Page 6990 follows)

MR. ST. LAURENT: Taking the case of provincial borrowing and municipal borrowing, on page 61, it would appear that with respect to municipal borrowing, for instance, your companies have about 15 per cent of the outstanding amount of municipal debenture debt.

MR. LEONARD: Yes.

MR. ST. LAURENT: Can you give us any indication of what percentage of this debt would be held by institutions similar to those in your organization, but not forming part of your organization?

MR. LEONARD: Might I again ask if Mr. Fortin could deal with that question?

MR. ST. LAURENT: I think it might be of value to have the information if it is available.

MR. FORTIN: It is very hard to say, Mr. St. Laurent. There are some cases where institutions might hold 75 or 80 per cent. There are other cases where they may only hold 6 per cent. It depends upon the character of the municipality which borrows. There are some municipalities whose borrowings will be almost entirely in the hands of private individuals.

MR. ST. LAURENT: Yes, but taking the bulk, what percentage for instance of Canadian life insurance funds is in the companies forming part of your organization?

MR. FORTIN: It is just about 100 per cent of those companies doing business in Canada.

MR. ST. LAURENT: So that practically all the life insurance --

MR. FORTIN: Yes, it is not entirely 100 per cent membership but we are in touch with all of them and we endeavour to contact them on each individual case.

MR. ST. LAURENT: Yes, but would this 15 per cent that is expressed on page 61 represent the holdings of

municipal debentures of practically all the life insurance companies doing business in Canada?

MR. FORTIN: I will say, yes, practically all of it.

MR. ST. LAURENT: Then that class of savings would not represent substantially more than 15 per cent of the holdings of the municipal debenture debt?

MR. FORTIN: I do not think so, no, not taking a cross section.

MR. ST. LAURENT: Have you any even approximate figure as to what proportion of the municipal debenture debt might be in the hands of the chartered banks?

MR. FORTIN: No, I have not. It is a fluctuating quantity, depending on general economic activities. Their investments as a rule are in the form of short term loans, they are there in effect temporarily, and go in and out.

MR. ST. LAURENT: What was running through my mind was this if companies subject to federal control were not going to be interested in an issue, would it be practical to make the issue, or is the participation of your companies and of the chartered banks almost essential to the success of any issue?

MR. FORTIN: No, I do not think so at all, sir.

MR. ST. LAURENT: You do not think it is?

MR. FORTIN: No.

MR. ST. LAURENT: You think there would still be a field from which the provinces and the municipalities could borrow, even though your institutions and the banks did not look upon the borrowing as a proper thing to do at that time?

MR. FORTIN: As far as municipalities are concerned our non-participation would have an effect but it would not prevent the loan being placed and sold. It would have an effect.

MR. ST. LAURENT: It would have an effect.

MR. FORTIN: Oh, yes.

MR. ST. LAURENT: I was wondering whether the situation was such that if this Commission were empowered, perhaps, to determine what bonds, provincial or municipal, would be legal investment for companies under federal control, that would in effect afford a check on the use of borrowing powers.

MR. FORTIN: I think it would. It would have an effect and would be a check, but there are of course many investments which are legal investments and not necessarily an investment in which you care to participate.

MR. ST. LAURENT: No, but in connection with any large issue of bonds would it be found by houses handling them that they were not a safe thing to undertake unless they felt they could place them with members of your organization and with other concerns subject to federal control?

MR. FORTIN: Yes, in large issues if our institutions do not take a part of the large issue, the bonds simply stay on the shelf, and that has an effect.

MR. ST. LAURENT: But even without agreement would it not be possible to have a commission that would exercise such control over the investments that might be made by the members of your group and by chartered banks and by other organizations that are subject to federal control, that would to a certain degree be effective.

MR. FORTIN: I do not know just how to answer it, how to visualize what would happen in cases like that, because after all investments are a matter for individual companies.

MR. ST. LAURENT: Well, I note here, perhaps Mr. Leonard could help us here, the opinion is expressed that government loans to farmers have in the past proved to be

very costly.

MR. LEONARD: Yes.

MR. ST. LAURENT: That has been the Canadian experience?

MR. LEONARD: Yes.

MR. ST. LAURENT: And I think it is perhaps not exclusively Canadian.

MR. LEONARD: Yes, the United States experience.

MR. ST. LAURENT: It has been the United States experience as well. If a large loan running into a great many millions were being offered for the purpose of, in part, making advances in the form of government loans to farmers, and such a loan was not acceptable to institutions such as those that belong to your organization, and was not something that the chartered banks could handle, would it be possible in our Canadian market to place such a loan?

MR. LEONARD: It would be extremely difficult in any loan of any large size.

MR. ST. LAURENT: A loan of any large size really requires the cooperation of the banks and the cooperation of such companies as belong to your organization.

MR. LEONARD: Yes, that is true, Mr. St. Laurent.

MR. ST. LAURENT: Well, that is something that constitutionally might be provided for without the cooperation of the provinces and municipalities. Chartered banks and the companies having federal licenses could be restricted in their investments.

MR. LEONARD: Of course they are now, Mr. St. Laurent.

MR. ST. LAURENT: Yes, but there could be a restriction that would require probably --

MR. LEONARD: Directed towards requiring a sounder financial statement from the issuing body, is that the point?

MR. ST. LAURENT: No, but there could be, I presume, constitutionally a requirement that these federally controlled investing units would not invest in something, the idea of which had not been approved by an advisory commission.

MR.LEONARD: That isquite correct.

MR.ST.LAURENT: And that might put quite an effective check upon the use of public credit.

MR.LEONARD: Quite, Mr.St.Laurent.

MR.ST.LAURENT: With respect to private credit, here again there is this feature that experience has shown that it has not been economically sound for the government to provide this credit to individuals.

MR.LEONARD: Yes.

MR.ST.LAURENT: It has to be provided as a straight matter of business by investors dealing with the private borrowers.

MR.LEONARD: I think that is correct.

MR.ST.LAURENT: And the view is expressed here that the Western provinces will require further private credit to a considerable extent.

MR.LEONARD: Further credit.

MR.ST.LAURENT: Credit to individuals I mean.

MR.LEONARD: To individuals, yes.

MR.ST.LAURENT: To a considerable extent.

MR.LEONARD: Yes.

MR.ST.LAURENT: And the past experience has been that the cost of handling the lending to individuals in the West has been about one per cent higher than in Ontario.

MR.LEONARD: Not quite that, a fraction of one per cent.

MR.ST.LAURENT: I understood you to say that one of

the companies that had a very substantial volume and whose affairs were handled probably more economically than might be the average, showed a cost of one and a half per cent?

MR.LEONARD: Yes, the average excess in the West over the Ontario was, I think, about half of one per cent, over a period of time.

THE CHAIRMAN: Was it in the reference you made to the banking and commerce committee evidence?

COMMISSIONER DAFOE: There are some figures on page 36.

MR.LEONARD: No, on page 32, in the third paragraph. The excess annual cost of the prairie provinces over that of Ontario during a period of eighteen years has been .53%. Of course that is made by a variation running some considerable spreads.

MR.ST.LAURENT: On page 36 the actual expense shown from the experience of the company you refer to was approximately one and a half per cent of the principal amount.

MR.LEONARD: Yes, that happened to be another company. It is just a check. There are variations there, but I had been dealing with the experience of one company which was .53% and on page 36 reference is made to another company where the spread was a full one per cent; that is right.

MR.ST.LAURENT: So something varying between half and one per cent is the spread between the actual cost of handling the investment.

MR.LEONARD: Yes, over a period of time.

MR.ST.LAURENT: That, I assume, on a straight business basis would have to be reflected in the rate taken from the western borrower?

MR.LEONARD: Yes, it is reflected to a great extent by the question of volume. The more money that can be handled the lesser the cost, and the question of volume is, in turn, dependent upon the question of risk.

MR.ST.LAURENT: And the statement in the appendix, page 17, shows what was the actual cost to the investing company of the money obtained from other sources.

MR.LEONARD: Yes. On the issue of Canadian debentures, issued to the public in Canada, and on sterling debentures issued in Great Britain.

MR.ST.LAURENT: And that actual cost varied in the period from 1919 to 1931 from 5.79% to 4.09%.

MR.LEONARD: Yes, Mr.St.Laurent.

MR.ST.LAURENT: So the average there would be probably something like 5¼%.

MR.LEONARD: The average is set out at the bottom, 5.268.

MR.ST.LAURENT: For Canadian debentures, and 5.53 for sterling debentures.

MR.LEONARD: For sterling debentures.

MR.ST.LAURENT: That would be the wholesale cost to the investing company to which there would have, on a business-like proposition, to be added its cost of lending, re-lending the money.

MR.LEONARD: Yes, of collecting.

MR.ST.LAURENT: And something for its risk of loss.

MRL LEONARD: Yes, and collecting.

MR.ST.LAURENT: Some proportion, I suppose, or it would not be in the business, for its own profit.

MR.LEONARD: Yes, quite.

MR.ST.LAURENT: A question was asked, Mr.Leonard, about the advisability of there being some constitutional

amendment where, under the provinces, you would have the unquestioned jurisdiction to deal with municipal re-adjustments. Is it possible that perhaps the position of the investor may be a little safer as it is, with there being some question about the unquestioned jurisdiction?

MR.LEONARD: The only question that I know of that really arises in connection with the constitutional question involves whether a certain element of compulsion can be put upon creditors and from that standpoint, in the broad interest of municipal credit, it is not desirable to push that to too great a length.

MR.ST.LAURENT: The situation at present is that it is being done.

MR.LEONARD: Yes.

MR.ST.LAURENT: And it is being done along what both parties consider to be fair lines.

MR.LEONARD: Yes, we ourselves have never had any occasion to raise a straight issue that would call for litigation on the question of the constitutional phase.

MR.ST.LAURENT: And in your opinion would there be any reflection on municipal credit if the situation was such that it was open unquestionably to the provincial legislatures everywhere to reduce interest or reduce principal without consulting the holders of the debt?

MR.LEONARD: I think there would be some cause for concern under the present situation in some provinces.

MR.ST.LAURENT: I believe you said that there were some three million investors in life insurance savings in Canada?

MR.LEONARD: The figures are quoted from the brief the life officers put in, in which they referred to

three million and a half policy holders.

MR.ST.LAURENT: Then practically all those investors in life insurance savings would be interested in the companies your organization represents?

MR.LEONARD: Yes.

MR.ST.LAURENT: And what proportion, or can you give us any indication of what proportion of this life insurance business is on a participation basis?

MR.LEONARD: Mr.Lithgow informs me that his estimate would be, roughly, 80%.

MR.ST.LAURENT: 80% of the life insurance business on a participating basis.

MR.LEONARD: Yes.

MR.ST.LAURENT: So that any loss whatsoever effecting the companies in your organization would be one that would have some effect on 80% of three and a half million people?

MR.LEONARD: Yes, that is quite correct. It is reflected in the participating policies.

MR.ST.LAURENT: That is all the questions I desire to ask, Mr.Chairman.

THE CHAIRMAN: Mr.Leonard, just one question coming back to the point we discussed yesterday. It was represented to us in the west that having regard to the serious condition of western agriculture, due to the low prices for a number of years, and more particularly to the drought, that even the reduction in the rate of interest which has been made in Manitoba and Saskatchewan,

if made in Alberta, would not restore the agricultural economy of the province to a sound working basis, that the losses to the farmers had been so great during that period, and the necessity for rehabilitation would involve something more than simply the reduction in the rate of

interest to the point mentioned. Have you any observations to make on that?

MR.LEONARD: Well, dealing with the situation, where we can make some comments as to the probable outcome with a little more confidence, shown in Manitoba or even in Saskatchewan it seems to us quite definite that there is not a debt problem that cannot be worked out as between the debtors and the creditors, with reasonable co-operation from the Government; that the present amount of debt, the present interest rate, is not, in the general picture, beyond the ability to pay, assuming any kind of a normal period of crops and prices. If we are to have a continuation of the conditions of the last few years it is impossible to predict what might happen.

The adjustment which has been made and the method proposed, more important the method which has been adopted, to meet this problem, the cooperation as between the governments, debtors and creditors, has been very constructive. The results achieved in Manitoba last year where a crop was obtained, for example, were excellent. I think this is so, from everyone's standpoint. I think the same thing would have been true in Saskatchewan had a crop been obtained in that province last year. Notwithstanding that a crop was not obtained, and notwithstanding that in many individual cases there is bound to be adjustment, whether it be a question of the interest rate or arrears of interest, there still has to be a considerable amount of debt adjustment. If we had a period such as that from 1921 to 1932, with prices around those prices or even a little less, western agriculture could carry the present burden of western private mortgage debt on its present basis. At least, that is our view.

THE CHAIRMAN: We thank your Association, Mr. Leonard, for preparing a very important brief dealing with some of the grave and urgent matters which this Commission is called upon to consider. The brief will receive the careful study of the Members of the Commission.

The British-Israel-World Federation has presented a brief to the commission, and, I believe, they are content just to have it filed.

MR. FOWLER: Mr. Springett is here to file it, my lord.

MR. SPRINGETT: MR. Chief Justice and Gentlemen of the Commission: May I express my appreciation of the fact that you allow me to appear before you at this time. I will present the brief with one single remark. My remark is this, in view of the fact that it seems to be impossible as a result of the suggestions which have already been made

and those which are left to be made, for merely human wisdom to find a solution for the many problems which are confronting us to-day, and which this Commission has to consider. We ask for your earnest consideration of the facts which we are presenting in this brief, and with that remark, I wish to file it at this point.

THE CHAIRMAN: The brief will be filed as exhibit number 274.

EXHIBIT NO. 274: Brief of the British-Israel-World Federation (Canada).

THE CHAIRMAN: In our sittings in Victoria, I entered upon the record on the closing day of the session, a telegram from Mr. Robson, President of the B.C. Lumber and Shingle Association, which was in the form of a protest against the brief filed by the Vancouver board of Trade. I received that protest on the morning of the twenty-fourth, and I wired Mr. Robson, as follows: "Your telegram received, and Commission will read it into record, pending submission of your brief. Suggest, however, you should submit your telegram Mr. H. R. Macmillan permit him make any comment by telegram to be read into record at the same time." No comment was received from Mr. Macmillan up until the time we were closing our session and, therefore, just the telegram from Mr. Robson was read into the record. On the following day, when I met Mr. Macmillan in Vancouver, he stated that Mr. Robson had not shown him either the telegram which he sent to the Commission, or my telegram. He was, therefore, not aware that he would have the opportunity of giving an explanation or making any reference to the matter. I told him that under the circumstances he might send a written communication to the Commission dealing with the subject matter of Mr. Robson's telegram.

I have now received a letter from the executive secre-

tary of the Vancouver Board of Trade which deals at some length with the circumstances under which the brief was prepared and the care which the Vancouver Board of Trade took to see that interested parties were consulted.

A copy of the telegram which I sent to Mr. Robson will be filed as exhibit number 275 and the letter from the Vancouver Board of Trade, as exhibit number 276.

EXHIBIT NO. 275: Telegram sent by the Chairman to Mr. Robson.

EXHIBIT NO. 276: Copy of letter from the Vancouver Board of Trade.

MR. FOWLER: Mr. Chairman, a short brief has been received by mail from the municipal district of Ray number 549 in Alberta. This brief could be marked as exhibit number 277.

I might say, Mr. Chairman, the brief deals with an Indian industrial school which is exempt from taxation within the municipality and the claims based upon exemption from taxation.

EXHIBIT NO. 277: Brief from the Municipality of Ray re Indian School.

MR. FOWLER: There are also two memoranda from Prince Edward Island Law Society dealing with the number of cases which have been heard from 1930 to 1938 by the Court of Appeal in Prince Edward Island. There were 39 in the full court and ten in the court of appeal in equity. This might be marked as exhibit number 278.

EXHIBIT NO. 278: Two memoranda from the Prince Edward Island Law Society.

THE CHAIRMAN: That is filed in answer to a question asked of the Law Society. The society was asked to furnish the informatiom.

The next brief to be heard is that of the Canadian

Chain Store Association. It will be presented by Mr. J. G Johnston and Mr. Morley Smith.

MR. JOHNSTON: Mr. Chairman and Members of the Commission: We have some supplementary material which has been prepared since the original brief was printed. I suppose that it would be more convenient to just read through the main brief and then pursue the supplementary material afterwards. Reading from the main brief, I quote:

> "The Canadian Chain Store Association appreciates the opportunity of submitting, on behalf of its members, some data about present modes of taxation in Canada that tend to impede the freedom of inter-provincial trade.
>
> The Chain Store Association is making this submission on behalf of 27 companies operating more than 2,300 retail stores in the nine provinces. This is equivalent to approximately 70 per cent of the average number of chain store units operated throughout Canada in 193[illegible] as shown by the Dominion Bureau of Statistics. Of the 445 companies reported by the Bureau as operating chain stores, the great majority are companies operating in only one province, and hence are not directly concerned with inter-provincial relations. Of the companies here represented, nineteen operate in more than one province, and two of these in every province. In Appendix A is given a list of our members with the distribution of retail units by provinces.
>
> It may thus fairly be said that virtually all the largest Canadian chain-store companies are members of this Association, as well as some small companies. With some few exceptions, our membership includes all chain-store companies who are engaged in inter-provincial trade.

"From this point of view we are particularly concerned with forms of taxation that tend to impede trade between the provinces. We have no protest to make, as an Association, about forms of taxation that are applicable to all incorporated companies or to all retail trade; but we believe that we are justified in directing your attention to certain discriminatory forms of taxation that are imposed by some provinces and municipalities upon chain stores and not upon their independent competitors.

It may be desirable to explain that there is no essential difference between the business conducted by a chain store and that conducted by a competing independent retailer. Both are performing the necessary public service of distributing goods to the ultimate consumer and both are remunerated for the service through their profits on the goods distributed. The efficiency with which the service is performed and the amounts of remuneration received vary among chain as among independent stores.

The principles on which chain stores operate may be summarized in two sentences:

1. Central buying at wholesale or directly from producers and decentralized distribution through a number of retail units.

2. Profits arising from

(a) Spreading of essential overhead over a large volume of sales;

(b) Small profit per unit of sale and rapid turnover of inventory; and

(c) With minor exceptions, dealings in cash with both suppliers and consumers.

"It should be pointed out that these principles of chain-store merchandising are capable of adoption by independent retailers. For example, there are many independent retailers, particularly in the drug and food business, who have formed what are known as voluntary chains. That is, they pool their purchases from suppliers and are thus able to secure the larger cash discounts that are recognized as legitimate earnings from quantity buying. They advertise cooperatively, thus reducing their advertising expense per store. Many of them have also adopted the "cash-and-carry" system of doing business, thus eliminating overhead expenses of credit and deliveries.

Thus, while for the sake of convenience, we may refer to these principles as chain-store merchandising, because they were introduced by the chain stores, chain-store merchandising is not a monopoly of the chains but is adaptable to all types of retail business.

Chain stores are not a new invention, although they have developed rapidly in the period since the Great War. Improvement in transportation and communication, fostered by motor vehicles and permanent highways, has greatly contributed to this development.

From the point of view of the consuming public, the great achievement of the chain-store system of merchandising has been the reduction it has brought about in the cost of living. By eliminating expenses in the process of bringing goods from producer to ultimate consumer and by sharing the resultant savings with the consumer, chain stores have increased the purchasing power of the consuming

"public, to the advantage of all classes of Canadian business.

In addition to passing on to the public the benefits of economies developed in distribution, the chain stores have constantly striven to make their premises attractive and to maintain high standards of quality and style in the merchandise that they sell. We believe that it is the type of service given by chain stores, quite as much as their reasonable prices, that has made them acceptable to the buying public.

In at least one feature of service, it must be admitted, the chain stores are at a disadvantage, compared with the independent merchant. The independent merchant, operating his own business, is closely in touch with his customers and can give personal attention to their preferences. In a chain store, the contact between consumer and merchant is invariably through an employee. In smaller centres of population where business is generally on a more personal basis than in the cities, it is usual to find that customers prefer to patronize a local independent merchant rather than a chain-store competitor, if prices, quality and service are equal. This prejudice is natural, and is a constant incentive to the chain stores to improve their service. From this type of competition the public benefits.

It cannot be denied that the rapid development of chain-store merchandising in Canada was at first accompanied by a certain amount of dislocation of retail trade."

I would add, wholesale trade.

"Unfortunately, it has become the custom to blame chain-store competition for nearly all the troubles of independent merchants, whether or not this blame is fairly placed."

THE CHAIRMAN: Mr. Johnston, while this is very interesting, no doubt, the Commission is not concerned with how the chain store renders its services or in the particular matters which you are outlining here. The only phase of this matter which comes before this Commission, is that phase of it which deals with discriminatory taxation. I think, perhaps, you have made a sufficient general statement. If there is any point which you would like to specifically mention, we would be glad to hear it, but I think you might come to the point of discrimination, which is the only phase of the matter directly concerning the Commission. You see, we are not called upon to pass an opinion upon the virtues or otherwise of the chain store as compared with the other store.

MR. JOHNSTON: I think on this same page we do get down to that point. Beginning at the second sentence of the first complete paragraph in the second column, page 2, I read:

"The result of this prejudice is that certain provinces and certain localities have inflicted on chain stores special, discriminatory taxation, thereby impeding their operations and at the same time presenting to independent merchants an important competitive advantage.

Remedy for this condition does not lie in the courts in the present circumstances. It would not lie in the courts unless these local laws or by-laws were enacted with a preamble stating that the

"purpose of the tax was to eliminate or at least to hamper chain stores. In discussions in city councils and local legislatures we have heard our protests derided because, as it has been stated bluntly on numerous occasions, the chain stores should be eliminated for the benefit of the local store-keepers. But the by-law, when passed, is cited as by-law for the raising of revenue for municipal purposes. Courts, some of our most eminent lawyers have told us, will not consider newspaper reports of such debates, and there are no official reports of debates in legislatures or municipal councils to reinforce our contention that the purpose of the special tax is to affect adversely the ability of the chain store to do business.

It is generally recognized that taxes of all kinds are one of the costs of doing business and that a merchant must recover them, as well as other items of overhead expense, in the prices of the goods that he sells to the ultimate consumer. If taxes cannot be recovered in prices, the merchant either does not receive a reasonable return from his business or even may sell his merchandise at a loss.

Members of the Canadian Chain Store Association are willing to pay all forms of taxes that are imposed on retail business generally. They sympathize with the difficulties of provinces and municipalities in raising the revenue for necessary public services and are glad to contribute their share through the medium of any tax that is imposed upon an equitable basis on all types of retail

"business. In paying taxes equitably imposed, and so recoverable from ultimate consumers, merchants are really acting as collectors of revenue for the taxing authorities."

I think perhaps we might skip the next section and start at types of discrimination, at the bottom of page three.

I quote:

"We shall not here attempt to describe in detail the various items of discriminatory legislation against which we protest. The relevant sections of the provincial acts will be found in Appendix B of this submission. Here we should like to discuss briefly the features of the legislation that exert a discriminatory effect upon chain stores.

The discriminatory taxation against chain stores in Canada is of seven types, namely;

1. A tax imposed by a municipality under authority delegated by the provincial legislature and graduated according to the number of units operated by a chain. The Montreal tax is an illustration of this type.

2. A tax imposed by a municipality under authority delegated by the provincial legislature, whereby a chain store within a municipality is taxed a certain annual sum without regard to the size of business or the type of chain. Such taxes are in force in several Quebec municipalities other than Montreal.

3. A tax imposed by a municipality on chain stores within its limits when the head office of

"the chain is situated elsewhere. Quebec City imposes such a tax.

4. A tax imposed by a province on the grounds of extra-provincial ownership or control of the business taxed. The New Brunswick tax is an example

"5. A tax imposed by a province and made equivalent to a percentage of the chain's gross sales within the province. This is the effect of the tax imposed by Prince Edward Island.

6. A tax, such as is imposed by the Province of Nova Scotia, graduated in part according to the number of units operated by a chain within the province and in part according to the amount of gross business done by the chain.

7. A tax of a fixed annual amount for each office or place of business within a province. This is the form of tax imposed by the Province of Ontario."

COMMISSIONER MacKAY: With regard to Number 3, Mr. Johnston, is that tax actually in force or is it simply on the Statute Books?

MR. JOHNSTON: That is Section 10 of The Corporation Tax Act. Last year they billed the companies, a few of them have paid, the others are contesting the Act on the ground of constitutionality. They have amended the Act this year, and I have a supplementary comment on it.

"Examples of Discrimination

In this connection, we may mention the fact that the City of Three Rivers, P.Q., is authorized by its charter to impose an annual tax of $2,000 on each chain store within the municipality. Although this tax has not as yet been implemented by a municipal by-law, this provision in the city's charter virtually gives it the power to prohibit chain stores from operating.

While other municipalities of the Province of Quebec have not obtained authority from the Provincial Legislature to impose taxes upon chain stores as heavy as that authorized for Three Rivers, in many

"cases the taxes imposed are so heavy as to interfere seriously with the ability of the chain stores to operate at maximum efficiency.

New Brunswick

In the Province of New Brunswick the amount of tax payable by chain stores is not even stated in the Act, but is left to the discretion of the Governor-in-Council, who, to quote the wording of the Act, 'shall from time to time determine the rates of taxes payable under this section and may impose different rates for different classes or kinds of business.'"

This paragraph refers to last year's law; this year's law is slightly different.

"We submit that such a delegation of taxing authority makes it possible for the Governor-in-Council at any time to establish such a heavy rate of taxation on extra-provincially owned retail business as to make any type of retail business a monopoly of residents of New Brunswick.

By Order-in-Council passed October 20th, 1937, the New Brunswick Government set the rates of tax payable under the provisions of Section 10A of The Corporations Tax Act. Under this Order-in-Council companies, for the purposes of the tax, were divided into two classes, "A" and "B". Class "A" companies include those engaged in the sale of food and in the sale of gasoline, oil and grease. Class "B" companies include those engaged in the sale of any other goods, chattels, wares or merchandise. The rate of tax payable by Class "A" companies begins at $100. annually for those having gross retail sales of $25,000 or less within the Province and increases by $100 for each $25,000 worth of gross

"retail sales within the province. For Class "B" companies the rate of tax are double those set for Class "A".

The same Order-in-Council provides that in arriving at the amount of gross sales on which this tax is based the firm liable to such taxation may deduct from gross total sales either

'(a). The amount paid for goods, chattels, wares or merchandise produced or manufactured in the Province of New Brunswick, or,

'(b) The amount received from sales of goods, chattels, wares or merchandise produced or manufactured in the Province of New Brunswick.'

While the effect of this provision is to reduce in many cases the amount of tax payable under Section 10A. we contend that its effect is also to establish a protective tariff for the especial benefit of New Brunswick against the products of all other Provinces. The constitutionality of this provision is therefore questionable.

Prince Edward Island.

The special chain-store tax imposed by the Province of Prince Edward Island has been framed so as to apply only to chains that are extra-provincially owned. Thus a chain store organization operating only one store in Prince Edward Island, but also operating three or more in other Provinces, is subject to the tax, while a chain store organization operating three stores in Prince Edward Island but none elsewhere is exempt. Thus the Act discriminates against chain stores not only in favour of the independent merchant but also in favour of the

"chain store organizations that are locally owned."

THE CHAIRMAN: Are there locally owned chain stores in Prince Edward Island?

MR. JOHNSTON: There is one organization at least, that has three stores and which does a considerable volume of business.

Nova Scotia

"The special taxation imposed upon chain stores by the Province of Nova Scotia is under Sections 16A and 16B of The Provincial Revenue (Corporations) Act. These sections apply only to incorporated companies operating or maintaining two or more stores within the Province or whose goods are sold at retail at two or more establishments by an agent or agents on commission or otherwise for the company. Since the Act does not base the taxation of chain stores on the fact of extra-provincial ownership, it does not discriminate between two incorporated companies that operate chain stores. It does, however, discriminate between an incorporated company that operates chain stores and a competing independent merchant. The independent merchant, if operating as an individual, might operate a larger chain of stores than the incorporated chain, and yet would not be liable to taxation under the sections cited.

The Act also provides that if a company operates a store with a gross annual revenue of $150,000, it is deemed to be operating one store for each $50,000 of gross revenue. When the revenue exceeds $150,000 and is less than $750,000, it is deemed to be operating an additional store for each $150,000 of gross revenue, or

"major fraction thereof, between $150,000 and $750,000. If the gross revenue exceeds $750,000, the company is deemed to be operating one additional store for each $250,000 of gross revenue, or major fraction thereof, over $750,000. This provision tends to defeat the operation of one of the cardinal principles of chain-store merchandising, namely; to earn profits through a small margin on a rapid turn-over of stock and thus keep the retail prices of goods as low as possible. Under this provision of the Act, the more successful a company is in increasing its volume of business, the higher are the taxes it must pay.

The objectionable feature of this provision is that the amount of tax increases with the volume of business done, while the rate of profit in all business tends to decrease with an increase in volume. Thus a tax based on volume rather than profit becomes in effect a restriction on opportunity of expansion.

Ontario

The Ontario tax of $50 annually for each office or place of business in Ontario applies, with certain exceptions, to all incorporated companies doing business in Ontario. It cannot therefore be contended that the tax is intentionally discriminatory against chain-stores, but its effect is discriminatory because it imposes on a chain-store unit a tax that an independent competitor is not required to pay. A large independent store, for example, might do as much business under one roof as several chain-store units, but would be taxed less.

Here, as in the case of the Nova Scotia tax,

"the tendency is to restrict the expansion of chain stores in their natural course of development and to encourage the expansion of competitors that are not chains. We feel that no restrictions should be placed on legitimate business expansion in whatever form it may develop."

I will omit the balance of that page, Mr. Chairman, and we reach our conclusions on page 6.

"In concluding this submission, we desire to emphasize the following points:

1. The members of the Canadian Chain Store Association, in their capacity of operators of chain stores, have no protest to make against any form of taxation, Dominion, Provincial, or municipal that is levied on an equitable basis from all classes of retail trade. As Canadian citizens, they would welcome measures of economy in governmental expenditure that would tend to decrease taxation, but as long as heavy taxes are necessary, they are willing to contribute their fair share.

2. Taxes imposed upon one class of retail merchants and not imposed upon their competitors are inequitable because they interfere with freedom of competition.

3. Taxes, such as those here described, are, we submit, contrary to the intention of the British North America Act, which reserves to the Dominion Government the exclusive power of regulating trade and commerce.

4. Such taxes also appear to be contrary to the intention of the British North America Act where it limits the taxing authority of the provinces to "Direct Taxation within the Province in order to the Raising of a Revenue for Provincial Purposes." We

"submit that discriminatory taxation cannot be justified as being imposed purely for the purpose of raising Provincial revenue.

5. The effect of such taxes is also, we submit, contrary to the intention of Section 121 of the British North America Act, which states 'All Articles of the Growth, Produce or Manufacture of any one of the Provinces shall, from and after the Union, be admitted free into each of the other Provinces.'

6. Such taxes tend to nullify the rights granted to companies that are incorporated under the provisions of the Dominion Companies Act.

7. The principle of discriminatory taxation, as exemplified in the Provincial Acts here cited, is dangerous because, if these Acts are constitutional, they form precedents for future legislation that might conceivably be used to regulate and hamper all forms of legitimate business enterprise.

We submit that legislative measures designed for the regulation of industries engaged in inter-provincial commerce are properly within the exclusive jurisdiction of the Dominion Parliament and that attempts to regulate such industries through taxation constitute an abuse of the powers of taxation conferred upon the Provinces.

RECOMMENDATION

In the matter of setting railway freight rates, it has been for many years a principle that discrimination is to be avoided, and any shipper who feels that he is being discriminated against by any rate may present his case to the Board of Railway Commissioners. We suggest that it might be

"proper to permit cases of discriminatory taxation to be similarly brought directly before the Supreme Court of Canada by any person or company whose business is affected and that the Court should have the power to disallow any Provincial tax that is found to be discriminatory either in effect or intent."

Sir, I would like to supplement that with some comments.

'Since the above paragraph was written, the Judgment of the Supreme Court of Canada has been handed down in "Re Alberta Legislation et al'. This important Judgment, while referring to the extraordinary expansion given to the recognized power of the Provinces to levy direct taxes for local purposes since the decision of the Privy Council in "Bank of Toronto v Lambe" 12, App. Cas 575, appears to establish that a provincial enactment which, though in form a taxing statute, is in fact directed to the frustration of an undertaking carried on by a Dominion Company, is ultra vires of a provincial legislature which cannot use its special powers as an indirect means of destroying powers given by the Parliament of Canada.

The decision appears to hold out some hope of relief for chain stores against unequal and discriminatory provincial tax legislation of the kinds referred to in this Brief. Such legislation, while in the guise of taxation for provincial purposes, appears increasingly revealing as it real objective the compulsory withdrawal of chain stores from the business field.

Reference is being made to the most recent legislation of the Province of Quebec whereby grocery

"legislation of the Province of Quebec whereby grocery and variety chain stores in the City of Montreal may be required to pay a special tax, not paid by their independent competitors, of $1,000 per branch upon all branches over the number of ten. (We are informed that the by-law was passed by the City Council this morning) It is an undoubted fact that the chain grocery stores of Montreal cannot afford to pay in addition to all other taxes which they must pay in common with independent grocery stores, a discriminatory tax of $1,000 per branch. It is very doubtful whether chain variety stores can afford to pay an additional special tax of this magnitude. The situation which will arise in respect to grocery and variety chain stores in Montreal if this taxing power be taken by the Montreal City Council is on all fours with the situation which faced the Banks of Alberta under the proposed Alberta Act respecting taxation of banks. With reference to this proposed Alberta legislation, Sir Lyman Duff on page 103 of the reported Judgment says;

'In our opinion, it requires no demonstration to show that such a rate of taxation must be prohibitive in fact and must be known to the Alberta Legislature to be prohibitive. It is our duty, as Judges, to take judicial notice of facts which are known to intelligent persons generally, and any suggestion that the profits of banking as carried on in Canada could be such as to enable Banks to pay taxes to the Provinces of such magnitude, having regard to the other burdens, such as municipal rates, which are levied upon them in Canada, as well as the taxes paid in foreign countries, would be incontinently

rejected by anybody possessing the most rudimentary acquaintance with affairs.'"

With particular reference to the Montreal tax by-laws we say this:

"In the session of the Quebec Legislature which was prorogued on April 12th, the City of Montreal charter was amended to enable the city council to impose an annual tax of $1,000 per food store or variety store for all stores over ten under one ownership. From five to ten stores inclusive the tax may be $500 per store, and $100 per store from the second store to the fifth, inclusive."

The owner of one grocery store would be exempt from this special tax,and the owner of one butcher shop would pay $50.00.

"Our information is that the City Council to-day (April 26th) will give first and second reading to a by-law imposing this scale of taxation.

Montreal's special chain-store tax came into existence in May, 1933, with a levy of $150 on chains of twenty or more stores, and sliding scale up to that amount and number beginning with the second store. In May, 1935, the tax was more than doubled, with a sliding scale from the second to the tenth store, and $300 per store above that number.

The result of the probable new tax is that one company which at one time operated 42 stores within the city proper is at the present moment operating only fourteen stores in the city and we are informed today that an additional five stores will be closed before Saturday, April 30, to avoid the maximum tax of $1,000 which will come into effect in all probability, on May 1st.

Another company operated 82 stores in Montreal

"prior to the existence of any special tax, 78 stores under the maximum tax of $150 per store, and 64 stores under the existing tax of $300 per store. We are informed that some other stores will be closed before next Sunday when the new tax is expected to come into force.

This latter company's record of total taxes paid to the City of Montreal is as follows: -"

I do not need to read that in detail.

THE CHAIRMAN: No, we have it before us.

MR. JOHNSTON: You will observe that tax more than doubled up to 1936, then dropped, due to the wholesale closing of stores. Then in the second paragraph we direct the Commission's attention to the drop in ordinary taxes paid by this Company; that is, the taxes paid other than the special tax dropped from $16,249,29 to $11,574.84, due to the closing of stores, of course.

"This decline in total tax payments took place, it will be noted, in a period of years when the rates of municipal taxation were generally increasing, in Montreal as elsewhere."

Prior to the $150 special tax they paid $136,749.00. rent, prior to the existence of the tax, - In 1937 that rental dropped to $87,105.20.

"We do not know, at this date, as to what rent landlords are receiving from new tenants. We do know, however, that three of the stores are still vacant and that a fourth is partially vacant.

If this new tax of $1,000 per store is finally established as a legal tax, and is retained by the city, there will be few chain foodstores in the City of Montreal and the opening of additional variety chain stores will be retarded. Food chains cannot afford to pay a tax of $1,000 per store, and

"even a smaller tax is a very serious burden. This is evident when one realizes that the largest Canadian food chain in its best days prior to 1931 enjoyed a net profit of only about $1,000. per store per year.

The discriminatory chain tax is not, in fact, an answer to the demands of those who would destroy efficiency for the benefit of inefficiency. In the United States there have been established so-called super-markets wherein an immense volume of business is done under one roof so that a discriminatory tax is small in relation to sales.

The history of the new Montreal tax is interesting in that it was not proposed by the city, but introduced by a member in the private bills committee of the legislative assembly at Quebec. This was, at the behest, we understand, of private individuals. The assembly committee rejected the amendment. It was reintroduced in the legislative council and passed, and later confirmed by the lower house. The legislative council the following day was, perhaps surprisingly, of another mind, for it then rejected on the same arguments a $1,000 tax requested by the City of Quebec.

New Brunswick

"Since this present submission was prepared and printed in March, the Legislature of the Province of New Brunswick has repealed Chapter 16, Revised Statutes 1927, "The Corporations Tax Act', and amending Acts, and passed a new Corporations Tax Act. It has therefore been necessary for us to prepare some supplementary observations on the new Act. The Act is not yet available in its printed official form, but we have received a type-

"written copy which we believe is accurate.

Under the new Corporations Tax Act of New Brunswick, special taxation of chain stores is provided under Section 19, which reads as follows:" I will not take your time by reading that section.

"It will be observed that one of the objectionable features of the previous Act has been dropped, namely, the establishment of extra-provincial ownership of chain stores as the basis of their taxation. The new Act, however, is still discriminatory in that it provides under Section 19 only for the taxation of companies operating chain stores. Presumably, an individual operating a chain of stores, or a number of individuals operating as a 'voluntary chain', are free from taxation, under the Section quoted.

The new Act, it will be observed, also delegates to the Governor in Council the authority of fixing the amount of tax to be paid annually by a chain-store company operating in New Brunswick. To the best of our knowledge, no Order-in-Council has yet been passed establishing the amount of the chain-store tax. We are therefore in the position of knowing only that we may be subject to heavy or even ruinous taxation, if this should be the desire of the Governor in Council.

From Section 19, subsection (2), here quoted, it appears that the Governor in Council has the delegated authority to fix different rates of taxation for different classes of chain-store business. It is thus in the power of the Governor in Council to use chain-store taxation as a device to give New Brunswick independent merchants a competitive advantage over chain-store units operated by incor-

"porated companies."

THE CHAIRMAN: Mr. St. Laurent, have you any questions to ask?

MR. ST. LAURENT: I think Mr. Johnston has made it quite clear that the contention is this is not really taxation but an indirect regulation of trade and commerce.

THE CHAIRMAN: The brief will receive careful consideration, thank you. It will be marked as Exhibit No. 279.

EXHIBIT NO. 279.	Brief of Canadian Chain Store Association.
EXHIBIT NO. 279-A.	Supplementary Statement to brief of Canadian Chain Store Association.

(Page 7026 follows)

AFTERNOON SESSION

The Commission resumed at 2:30 P.M.

THE CHAIRMAN: Our first brief this afternoon is that of the Canadian Importers and Traders Association, Incorporated, of Toronto. Who will present the brief?

MR. G.E. SMITH (President): Mr.A.O. Thorne, the secretary-manager of the Association will present the brief.

MR. A.O. THORNE ; Mr.Chief Justice and gentlemen:

"In this brief the Canadian Importers & Traders Association has dealt principally with the question of taxation by customs tariffs, sales tax and excise tax as applied to imports, and have endeavored to show how the burden of such taxation is not equitably distributed over the several Provinces of Canada.

We believe it will be admitted that any benefits accruing from the present tariffs are largely for the advantage of the manufacturers of Ontario and Quebec and that the other Provinces of Canada, especially those in the West, must pay tribute in the form of higher domestic prices for their instruments of production and for the necessities of life, in return for which they receive no compensating benefits. This also applies to the primary industries in all provinces.

Being largely producers of primary products their prices are fixed to a great extent by world prices. So they are in this position, they must sell on a world market but must buy in a highly protected market. As a result, the primary producer, dependent as he is to a great degree on export business, is handicapped by this higher cost of

his necessities, which is in turn added to his cost of production, making it just that much harder to meet world competition. He is then faced with the alternative of a loss of market or lower returns on his labour, and which is met either by lower profits or wages, usually the latter, to enable him to meet this competition.

Even the Canadian manufacturer is drawn into this picture since the lowering of the standard of living and lesser buying power among the primary industries is reflected in a shrinking of his home markets. It would sometimes seem that Canadian manufacturers prefer large profits and lower production rather than smaller profits on greater production. Unfortunately this philosophy is cumulative in its effects and their domestic markets are progressively reduced.

From this it would appear that taxation by tariffs, bears more heavily on one province than on another and upon one class of producers than upon another.

While no doubt high protection induces the starting of industries and creates labour, this is largely at the expense of a far larger number of our workers, than those directly benefited. Those engaged in manufacturing industry numbered 505,158 in 1936, while those in other occupations not directly benefited by tariffs were 523,592. (from report of National Employment Commission) In addition to those latter there are the agricultural workers, approximately 1,128,154 persons who benefit least of all from tariffs. (Canada Year Book 1937.)

The following figures have been quoted by

the proponents of higher protection, as indicating that the average tariff rate is quite low. These are quite misleading as they only show the ad valorem rates and do not take into account the special duties, excise tax, nor the added protection afforded by such devices of administration, as valuations and special or dumping duties. If there were available statistics, they would show that the percentage rate on all imports, into all but the central provinces, would be considerably higher than the 13.7% as shown for 1936 over the whole of Canada, for the reason that many raw materials and parts for manufacturers are on the free list or enter at special low rates."

Is it necessary to read those figures?

THE CHAIRMAN: No, we have them before us, Mr.Thorne.

MR.THORNE: "This we think confirms our contention that the central provinces are the greatest beneficiaries of the tariff system.

The net value of production in Canada in 1935 was by manufacturers $1,016,623,522, and by those not directly benefited by tariffs $1,378,097,166.

The total exports in 1936 were $797,815,231. manufactured products accounted for $201,331,812 the balance $596,483,419 being primary products.

These figures would indicate that the value to the country of our primary industries is much greater than are the protected industries. Also that a larger percentage of our primary products are dependent upon the worlds markets, than are our manufactures.

It may be a platitude to say that exports depend upon imports and that we sell where we buy;

it is nevertheless true and a curtailment of imports by means of high tariffs must eventually and inevitably bring a decrease of exports.

In our opinion a general lowering of the average rate of tariffs would at least, ameliorate the present discrimination by taxation under this head as between the Provinces.

In suggesting this we have in mind the welfare of the greater number of our population, who are engaged in industries which can only remotely be benefited by tariffs, any such benefits being more than offset by the penalties imposed.

We are not advocating free trade. That might be an ideal condition theoretically, if world wide, but we are sensible that, under present world conditions some measure of control by tariffs is necessary and that they are of value to the government as a source of revenue.

We do however believe that the present rate of the Tariff could be lowered without materially affecting the prosperity of our legitimate manufacturing industries.

It has already been pointed out, the average rate on dutiable goods is actually much higher than the figures quoted, namely 24.9% since this only refers to the ad valorem duties and does not take into account the effect of specific and excise duties and re-valuations for duty purposes. In many cases the actual cost of importing goods amounts to 75% to 125% over and above the initial invoice value.

Surely there can be no doubt that many of the present tariff rates, as applied, are greatly in

excess of any measure of protection that Canadian industry should or does require.

Many of these exorbitant rates are imposed on commodities of a class or kind not made in Canada, or if made, are in such limited ranges that they are sheltering under this class or kind clause, because of some general similarity."

THE CHAIRMAN: If they are not made in Canada, then would not that be a duty for revenue?

MR.THORNE: As a matter of fact it is not so, sir. It is in a sense but it is apparently not based on that. The point is if there is a general similarity it has been held by the tariff board that if a thing is of a general class, a very broad class,that it is equivalent to a class or kind made in Canada.

THE CHAIRMAN: Thank you.

MR.THORNE: "We are satisfied that if a survey were made of existing industries it would be found that there were a number of these which, because of our limited population and because of the nature of the processing, require a volume of production entirely beyond reasonable expectancy. This Association believes that the government would be well advised to allow such commodities to enter Canada freely from those countries where large scale production and skill already exists, rather than bolster up such uneconomic industries at the expense of the consumer.

There are examples of such industries being established under the protection afforded by inordinately high duties. For instance, it was stated at a Tariff Board hearing that the wool felt hood industry in Guelph was started because of the

extraordinary protection afforded by a fixed value on imports.

In the eyes of some, the chief virtue of high tariffs is the creation of more factories in the country. We question the wisdom of adding industries by such artificial stimulus, particularly by the use of borrowed capital which means a drain on our resources by way of interest, and dividends to foreign owners.

It is admitted that many of these industries (often branches of foreign firms) are doing a fair volume of export business, in many instances because of preferential Empire markets. Here again the Canadian consumer 'pays the shot,' his price being boosted by the Tariff protection, while export units are sold at much lower figures. In some cases the profits appear to be short circuited to the foreign parent company.

We are satisfied that the tariff schedules could be revised in such a way as to afford ample protection to legitimate and indigenous industry while correcting such glaring cases of overprotection as we have indicated.

This Association does not approve of any basis of tariff such as is suggested by sub. Sec.b, Sec. 4 of the Tariff Board Act which reads as follows, "the cost of efficient production in Canada and elsewhere, and what increases or decreases in rates of duty are required to equalize differences in the cost of efficient production."

Such a basis would imply that any manufacturer who wished to establish an industry in the country was entitled to a tariff that would bridge the difference between his costs and those in a country

exporting to Canada, which would be in most instances, absurd.

Revenue

Such a lowering of tariffs as we suggest would, we believe, enhance rather than reduce the revenue. The records would seem to show that when tariffs are at a reasonable level, the revenue increases and the very opposite is the case when customs imposts are unreasonably high. In 1930 before the drastic increase in duties the net customs duties collected were $179,429,920. as against collections in 1936, when duties were still high, of $74,004,560.

The increase of trade both ways due to the operation of the Canada-U.S. trade treaty is an indication of how trade increases with mutual benefits when the barriers are removed.

Regional Tariffs

It does not seem feasible nor wise to attempt to create different tariffs for different sections of the country. In this connection we would like to call the attention of this Commission to a case where such a discrimination is being made in effect, by the manipulation of values for duty purposes. We refer to the values on fruit and vegetables under authority of Sec. 43 of the Customs Act. In many cases, by order of the Minister, such values do not apply in certain of the Provinces; this was the practice for several years, without the authority of the Act and was only legalized last year by an amendment to Sec. 43 of the Customs Act. This Association is definitely opposed to such discrimination in duties as between Provinces and consider such legislation as forming a dangerous precedent."

THE CHAIRMAN: What would be an illustration of that, Mr.Thorne?

MR.THORNE: I have here, which I might leave with the Commission, two bulletins from the Department. This is dated April 23rd:

> "Value for duty of asparagus. By an Order in Council passed under Section 43 of the Customs Act, the Honourable the Minister of National Revenue was authorized to fix the value for duty of asparagus, and he has, under such authority, fixed the value for duty thereof at an advance of 4-2/5¢ per pound."

That is an arbitrary value fixed under Section 43.

This is a supplementary bulletin:

> "The Minister of National Revenue has directed that the application of the value fixed for asparagus, imported into Canada, as per Fruit and Vegetable Bulletin No.2 (1938) be suspended in respect of importation into the Provinces of Nova Scotia, New Brunswick, Prince Edward Island, Manitoba, Saskatchewan, Alberta and British Columbia."

In other words, the fixed value of asparagus in the two provinces of Ontario and Quebec does not apply in the other provinces. That has been the practice for a number of years and the Government's attention was called to it.

THE CHAIRMAN: Is that because asparagus would not likely be produced at this early date in these five provinces?

MR.THORNE: I do not know just what the real meaning back of it would be.

THE CHAIRMAN: I would assume that would be it, Ontario, Quebec and British Columbia.

MR.THORNE: British Columbia should not be.

THE CHAIRMAN: Is British Columbia excepted?

MR.THORNE: No, Nova Scotia, New Brunswick, Prince Edward Island, Manitoba, Saskatchewan, Alberta, yes, and British Columbia. Now, the season is ahead there, and the same in Nova Scotia, would be equivalent to Ontario. So there must be some other reason. But they did amend section 43 of the Act so they legalized it. We believe that while it may be all right as far as fruit and vegetables are concerned, if that principle is to be carried to its logical conclusion they might say that steel or anything would have a different value or a different duty in a different province, which would be equivalent to putting a tariff between the provinces, as we see it.

THE CHAIRMAN: Have these matters been taken up with the Tariff Board or with the Department?

MR.THORNE: Yes, we have objected. I say we objected to that imposition on fruit and vegetables on the score that it was illogical, but the way they did that, they legalized it by amendment to the Act, so that was as far as we got.

THE CHAIRMAN: Did they tell you why it was done?

MR.THORNE: No, they have never given any particular reason.

THE CHAIRMAN: There must be some reason for it.

MR.THORNE: I presume they have a reason. Sometimes the reasons are very obscure. We are not particularly objecting in this specific case of fruit and vegetables, there may be some reason for it, but we do object to the principle of it because we do not know where it might lead. If they do it in respect to some other article then we have what is equivalent, we think, in this case, to a different duty for a different part of the country.

That is what it amounts to.

COMMISSIONER ANGUS: If these articles are brought into one province at a lower rate, is there a prohibition against shipping them to another province?

MR.THORNE: No, the only thing is your freight takes care of that, the cost of shipping.

COMMISSIONER DAFOE: No doubt the freight is carefully calculated?

MR.THORNE: I presume so, because it is not possible to do so. It may be in some cases where there was a shortage or something of that kind, but as a rule you can take it that it is not possible to ship from one province to another. You might, of course, from the border of Manitoba ship as far as Kenora, but in the large markets you could not.

COMMISSIONER ANGUS: Does that suggest that a possible object might be to protect the local grower in a local market?

MR.THORNE: I presume the object is to protect the grower here in Ontario against the American asparagus in this particular case. Perhaps the competition in Manitoba would be equalized as between the American and Central Ontario, because that freight element would come in again, you see, and there would probably be no object in raising the value as far as Manitoba is concerned.

COMMISSIONER DAFOE: It is a proposition to protect the Ontario producer and to give the consumer in the other provinces, where there is not a local production of asparagus, a fair show. That is the idea, obviously.

MR.THORNE: I Presume that is the object of it, but as I said we are not objecting to this particular thing, as far as vegetables are concerned, but we do object to what may happen. Logically anything could happen.

THE CHAIRMAN: That would appear to be logical

protection, would it not? To protect where it is produced and give the consumers where it is not produced the full benefit of the importation.

MR.THORNE: I grant that, sir, but what we are afraid of is that there may not be any particular limit. Logically speaking there is not any limit. If applied to steel and other products you can see where it might take it. They have asked, for instance, that it might be as well on coal. We are just drawing that to the attention of the Commission to show what is being done.

THE CHAIRMAN: You realize we are not sitting as a tariff board. We have nothing to do with the terms of the tariff except we are asked to consider its incidence as affecting different parts of Canada. We do not sit in review on the tariff. There is a tariff board to deal with all those things.

MR. THORNE: No sir, I think I realize just your limitations, but this is a case where one province is being charged more than another province.

THE CHAIRMAN: Yes, I was speaking generally as to the tariff section of your brief.

MR.THORNE: Yes, I realize that, and I may perhaps have stretched a little bit in our brief, but we do think that the tariff does effect one section of the country more adversely than it does another or more favorably, as the case may be.

THE CHAIRMAN: We find those, both east and west, who would agree with your contention there, Mr.Thorne.

MR. THORNE: Well, I could believe that, sir.

3% Excise Tax

"This is not strictly speaking an excise tax but is rather a super customs tax, and as such we believe should be abolished."

That is by the way.

Sales Tax

"This tax, in the eyes of the taxing authorities has two virtues, first it is easy to collect and secondly it produces a larger revenue than any other single tax, more than the income tax, and more than custom duties. It has however a number of objectionable features and for this reason this Association would like to see it abolished, or if not then it should be revised so as to do away with the present weaknesses.

It is not an equitable tax since it is not collected in all cases on the same basis. To illustrate this, we will take the case of a manufacturer who may retail his product. In this case he does not collect the tax on the retail price but pays on a more or less arbitrarily fixed price somewhere between his cost and the retail selling price. This appears to be based on an estimated manufacturers profit which is added to his manufacturing cost. It is self evident that this system leaves room for many errors due to changes in cost, in normal profits and in determining what is a proper profit in the circumstances. A case in point is the retailing of gasoline by the producing oil companies.

There is no criticism of the administration implied, for we are satisfied that they have adopted such methods in an effort to avoid discrimination.

Perhaps the worst feature of this tax is the pyramiding of the original amount as collected by the government. In the case of an unlicensed jobber or importer the tax is paid on purchase, or on importation, and is immediately added to his investment, to which is added his percentage of profit.

If the jobber sells to a retailer this operation is repeated, so that the original tax as collected, may easily become 15% by the time it reaches the final purchaser.

Added to this is the fact that this investment in the tax, by the wholesaler or retailer is tied up on his shelves, possibly for months until the goods are disposed of. This loss due to tied up capital must run into very large figures. It practically amounts to prepayment of the tax by the middleman, who has to advance the money either from his own capital or by borrowing from the banks.

In many cases the unlicensed merchant sells to a licensed wholesaler or manufacturer in which case he is entitled to a refund, but in such a case usually has to wait months for the payment of his refund, on which he receives no profit or interest.

This Association believes that any tax which permits the tax paid, to be treated as an investment to which profit is added is a bad tax in principle."

THE CHAIRMAN: That of course applies to the customs tax.

MR. THORNE: Yes, it does, as a straight tax. It applies there too. It is a bad tax, too.

"Another weakness of this tax is that it bears heaviest on those of our population least able to bear it. We think it safe to say that the greatest percentage of our people must spend practically their whole income to live and this tax takes from their necessity and at the same time reduces their buying power by the amount of the tax. It could be argued that this loss of buying power is reflected in the domestic market for goods and so increases

unemployment in our industries. If this is so, one might speculate on how much of the tax collected goes to sustain these extra unemployed by relief payments."

COMMISSIONER ANGUS: Would not any other tax take away from somebody's buying power?

MR. THORNE: Yes, all taxes would, but I think the point here is that this is particularly heavy on the greatest number of our people, who are on a very meagre salary, who must spend every cent they get, and I think possibly in the case of the better-off man he does not spend his whole salary, it does not make the same difference in his buying power because the surplus may go into investments and so on.

COMMISSIONER DAFOE: The official who has charge of the collection of this tax, giving evidence before us in January, claimed that the exemptions were so widespread and had been so carefully chosen, that the regressive features of the tax were reduced to a minimum. Would you feel prone to make any observation in that connection?

MR. THORNE: I don't know whether I should quote the official against himself, but I discussed this matter with him only last week and he felt that my argument as to the reduction of the buying power was a valid one and a real one. That is not evidence of course, but I am just repeating that.

THE CHAIRMAN: It is true, as Commissioner Dafoe has referred to the evidence given at Ottawa, that there is a very large list of exemptions that would apply to a great many articles which the average worker would purchase.

MR. THORNE: Yes that is true of a great many food stuffs and things of that kind, but when it comes to his

apparel and everything he purchases in the way of utensils and all that sort of thing it is still there nevertheless; and after all the amount that a man and his family eats is not such a tremendous percentage of his total cost of living.

THE CHAIRMAN: Of course what he eats and the rent of his house, those two together constitute a pretty substantial item in the family budget.

MR.THORNE: Oh yes, but I could argue this way, sir, that when he rents a house he indirectly pays a sales tax because when the house is built the cost of the house is enhanced by the sales tax.

"It might be also argued that, as with tariffs the Provinces which depend largely on natural resources, bear a heavier burden than the industrial Provinces, since the bulk of their purchases are tax bearing, whereas the manufacturers, who are practically all licensed, make no investment in sales tax but simply collect it for the government.

Provincial Taxes on Business.

Many of the members of this Association do a nation wide business and are vitally interested in the imposition of income or profit taxes on extra provincial companies. It is our firm conviction that such taxes create bad feeling between the Provinces and in this way tend to weaken Confederation.

Such taxes are of doubtful benefit to the Provinces imposing them, since in the long run they will be a charge on their own people because of higher prices or restricted trade. We believe the feeling is growing that interference with trade by price fixing, wage fixing, and business taxes, should be by the Federal Authority, if only for the sake of uniformity.

In making these suggestions to the commission we realize that they can only partially equalize the existing difference between the Provinces. The real problems are due largely to geographical, topographical and climatic conditions, and as such go beyond the realm of taxation.

All of which is respectfully submitted."

THE CHAIRMAN: Mr.Thorne, would you just tell us how extensive your association is and what classes of importers and traders are included within it?

MR.THORNE: Our Association has a membership from Quebec to Montreal. The membership in numbers is not very large but represents a considerable amount of capital, We have some of the very largest importers in the country. and I might mention some people like Greenshields, Hudson and Racine in Montreal, the Robert Simpson Company here. Woolworth's, Kresges, Hudson's Bay, Nerlich & Company and people of that kind. So that we are representative of a very large volume of business. Practically all the large importers are members. Numerically we only have about 135 members, but the firms represented are important firms and represent a very large percentage of the total imports.

THE CHAIRMAN: Thank you, Mr.Thorne. This brief will be exhibit 280.

EXHIBIT NO. 280 -Brief of Canadian Importers and Traders Association, Incorporated.

THE CHAIRMAN: Have you any questions, Mr.St.Laurent?

MR.ST.LAURENT: No, Mr.Chairman.

THE CHAIRMAN: Thank you, Mr.Thorne. The brief will receive very careful consideration.

The next brief is that of the Ontario Municipal Association to be presented by Mr.C.C. Middlebro. You are chairman, clerk and solicitor of the Ontario Municipal

Association?

MR. C.C. MIDDLEBRO: I am Chairman of the special committee that was appointed to prepare this brief, your Lordship. And Mr. George Hurst of the Assessment Department of Toronto is with me.

THE CHAIRMAN: Tell us, Mr. Middlebro, what bodies are included in this Ontario Municipal Association?

MR.MIDDLEBRO: The Association includes twenty-five cities, seventeen towns, nine villages, fifty-eight townships and eight counties, out of a total number of cities in the province of Ontario of twenty-seven, towns one hundred and forty-five, villages one hundred and fifty-six, townships five hundred and seventy-one, counties thirty-eight. In other words we represent one hundred and sixteen municipalities out of nine hundred and thirty-seven. The total population of the province, I understand is 3,350,000 odd, and we represent 1,787,000 people.

THE CHAIRMAN: The municipalities you represent have a population of more than 50%, approximately 50% of the population of Ontario?

MR.MIDDLEBRO: Approximately two-thirds. And we represent all the cities except two. All the cities except two are in the Ontario Municipal Association.

THE CHAIRMAN: Which two are the favorite ones?

MR.MIDDLEBRO: Well, that is not right, all the cities last year were in the Association except one. That I believe was the city of Brantford. In preparing this brief we did not consider the report from the city of Windsor because they had an amalgamation with the other border municipalities.

THE CHAIRMAN: Quite so.

MR.MIDDLEBRO: And therefore their figures did not really bear on the subject. And in preparing this brief,

I do not know, sir, whether you would like to have explained how we got the data upon which we proceeded?

THE CHAIRMAN: No, we will assume you got it properly, Mr.Middlebro.

MR.MIDDLEBRO: We sent questionnaires to all member municipalities, and on the basis of the information that we got in those questionnaires we compiled these statistics and drew our conclusions.

THE CHAIRMAN: Thank you.

MR.MIDDLEBRO: "To the Members of the Royal Commission on Dominion-Provincial Relations: Gentlemen:

At the thirty-ninth Annual Meeting of the Ontario Municipal Association, held in Toronto on the first three days in September, 1937, the Executive Committee was instructed to appoint a committee for the preparation of a brief setting forth the position of the municipalities, as creatures of the Province, as necessary to arrive at a decision as to the relations between the Dominion and the Provinces. The municipal picture is a very important part of the provincial picture and therefore the pr sentation of it is essential to an appraisement of the Federal-Provincial picture.

A list of questions was sent out to all municipalities in membership in the Association and complete or practically complete replies were received from 24 cities, 13 towns, 8 villages, 31 townships, as well as 6 counties. The combined population of these municipalities other than counties is 1,787,717. It would appear, therefore, that the conditions as set forth in the presentation which follows represent a fair cross-section of the conditions obtaining municipally throughout the

Province of Ontario."

On page 2 we have set forth a table showing the assessed valuation of land per capita, divided between cities, towns, villages and townships and then we have grouped all the municipalities and show an aggregate figure there, and from that we have drawn certain conclusions on page 3.

> "It will be seen that from 1931 on the assessed valuation of land as distinct from buildings on the land decreased fairly steadily until 1937. The decrease started later in rural municipalities where there is naturally a greater "lag" in valuation changes, and the return of better times seems possibly to have had some beneficial effect on village assessments. One of the two great sources of tax revenue of the municipalities was therefore seriously effected from 1931 on and is still on the down grade. That is, while the burden of municipal expenditures was increasing relatively to tax paying ability, a main source of revenue was decreasing in capital valuation in spite of the urge to maintain assessed valuations at the pre-depression level."

On page 4 we have set forth a similar table of the assessed valuation of buildings per capita, using the same basis, and on page 5 we have drawn our conclusions.

> "It is to be noted that:
>
> 1. Municipalities as a whole declined in building assessment after 1933.
> 2. Cities and towns declined in building assessment after 1933.
> 3. Townships and villages, although they showed a tendency to decrease in assessment of buildings early in the period, maintained or increased

building values in succeeding years.

It is significant that building values declined in urban centers where unemployment relief tended to be heavy, while building valuations increased in villages and rural municipalities. Among the villages which showed large increases were several rapidly growing villages with little or no relief problem but in close proximity to highly industrialized cities with large relief problems."

Such, sir, as Forest Hill Village.

"The influence of large relief expenditures in reducing capital values of real estate is strongly suggested.

Business Assessment."

On page 6 we have a similar statement of business assessment.

"As is well known in Ontario the Business Assessment is based on varying percentages of the capital valuation for assessment purposes of property occupied for business purposes, according to the nature of the business. The table on the next page shows the main facts. "

These facts show that in the cities there was a decline in business assessment.

THE CHAIRMAN: Not very much.

MR.MIDDLEBRO: No, not a great decline as compared with 1930, although you will notice that the business assessment climbed in 1932 to $139.24 per capita as compared with $129.63 in 1937. So that from the peak there was a fairly substantial decline.

THE CHAIRMAN: It is interesting to note that the towns got up to $107. in 1933 and then dropped to $96 and down to $86 in 1937.

MR.MIDDLEBRO: Yes.

THE CHAIRMAN: Villages were at their maximum in

1930 at $26 and they are down to $15 in 1937.

MR.MIDDLEBRO: That perhaps shows the trend of business towards the larger centres. I don't know why it is so, but I may say that the villages did not form a very large part, only nine villages heard from.

THE CHAIRMAN: Hardly enough to generalize from.

MR.MIDDLEBRO: No.

"There has been a reduction of business assessment since 1932 or 1933 in all types of municipalities but in cities where there were large relief disbursements small businesses, to a large extent, were able to maintain their position or at least their existence. In towns and villages the drop was much larger. The picture for townships is somewhat obscured by the presence in the list of some large suburban townships where large relief payments were made. As these payments were largely at the cost of real property the maintenance of business through relief disbursements was largely at the expense of real estate.

Income Assessment.

In 1935, the Province took over the income tax and changed it from a mill rate basis to a graduated tax. For one year payments to municipalities on the basis of their income tax receipts for the previous year were made and in 1937 a payment on the basis of 1 mill on the assessment other than income has been made."

You will notice that there was, down to 1935, when this was taken over by the province, a reduction of 50% in the income assessment in cities, a steady drop.

THE CHAIRMAN: I have forgotten, Mr.Middlebro, was the old city assessment on income a graduated tax according

to the amount of the income or was it on a flat rate?

MR.MIDDLEBRO: The income tax was based on the income over three thousand dollars for householders.

THE CHAIRMAN: Was it graduated, increasing with the amount, or was it a flat rate?

MR.MIDDLEBRO: No, a flat rate, a flat mill rate, sir. The income tax rate was the same as the municipal rate for all other purposes.

THE CHAIRMAN: Yes, that is it.

MR.MIDDLEBRO: On page 9:

"Even before the change in basis of the tax there were drastic reductions amounting to about 50%. This indicated that tax paying ability was going down and undoubtedly income from real estate, although not assessed by the municipalities of Ontario was going down at least as rapidly. During the years from 1931 on, welfare expenditures were rapidly increasing. This would indicate that a local tax system is quite inadequate for financing welfare expenditures.

Exemptions:

Exemptions in relation to the total taxable assessment, as will be seen by the table on the next page, tend to grow steadily. This means a narrowing of the tax-base and increases in the rate on the remainder of the assessment."

(Page 7050 follows)

Now, we have, in this table, not only made a summary as we did in the other tables, but we have taken the total taxable assessment per capita and have compared it with the exemptions, showing the percentage of increase in exemptions from 1930 to 1936. The increase is approximately 2 per cent.

Returning to the brief, I quote:

"In any realignment of taxation careful thought should be given to the following points:

1. The exemption, total or partial from taxation of certain types of residential property.
2. The exemption from local taxation of governmental property used for governmental purposes.
3. The exemption, total or partial, from local taxation of governmental trading operations such as liquor stores.
4. The exemption, total or partial, from local taxation of industries.

All operations that employ people force municipal expenditures on schools..."

THE CHAIRMAN: Before you continue--you say,"certain types of residential property;" to what types do you refer?

MR. MIDDLEBRO: There is a provision in the Assessment Act that in certain cities properties which are paying on a valuation up to $4,000--there is a partial exemption granted such dwellings.

THE CHAIRMAN: There is a by-law to that effect in the City of Toronto, is there not?

MR. MIDDLEBRO: Yes, there is.

THE CHAIRMAN: Then on government property used for governmental purposes, there is an exemption from local

taxation, is there not? There are properties such as the liquor stores, does the government pay any taxes on any of the liquor stores?

MR. HURST: Up until this year, Mr. Chairman, the government has not been liable for business assessment. However there is an arrangement being made now which will reimburse the municipalities to a certain extent.

THE CHAIRMAN: We have this same problem in all the provinces, the taxation of government business enterprises or public utility. In some cases, the province has not paid anything in respect of the government liquor stores, and in others, the government has made a grant to the municipalities in lieu of taxes. What form is it likely to take in Ontario?

MR. HURST: I think it will be more of a grant, Mr. Chairman.

THE CHAIRMAN: Equal to what the taxes would be, I suppose?

MR. HURST: The amount would be equivalent to the amount collected if a business assessment had been made.

THE CHAIRMAN: The business assessment is one thing, but there is the real estate occupied by the liquor store, is that taxed?

MR. MIDDLEBRO: As a rule, Mr. Chairman, these stores which are used as liquor stores are rented properties and the municipalities receive taxes from them. There are certain buildings owned by the government itself such as wholesale warehouses. These are owned and occupied by the government on which no taxes are paid.

THE CHAIRMAN: The exemption, total or partial from local taxation of industries, to what do you refer there?

MR. MIDDLEBRO: Fixed assessment, sir.

THE CHAIRMAN: That is a matter of legislation as a rule, is it not, special Acts?

MR. MIDDLEBRO: That is a matter for each municipality to decide. A vote of the ratepayers is conducted on this question, and if the ratepayers vote two-thirds in favour of a fixed assessment, it is given.

THE CHAIRMAN: I suppose it induces a certain amount of competition between municipalities in an attempt to get industries?

MR. MIDDLEBRO: Yes, a very wicked competition. Quoting from the brief, at page 11:

> "All operations that employ people force municipal expenditures on schools, health, fire, police, etc., and the taxation of the employees is not sufficient to cover the costs. Unexempted private business and corporations are taxed and their contributions are necessary to cover the municipal costs of services to their employees. This principle should be made effective in taxing all property. If it is necessary as a matter of public policy to exempt certain property from taxation, the indirect subsidy should be strictly limited."

Then we outline this assessment total.

> "It is very evident that almost the whole burden of municipal taxation is on real estate. Since the abolition of the municipal income tax, real estate bears an even greater proportion of the municipal costs. Even when the costs of the welfare services taken over by the provincial government, and the subvention of one mill on the realty assessment are considered, the loss of the income tax has been a great blow to those muni-

"cipalities which might have expected largely increased revenues from this source as times improved. In addition the number of peopl: who contributed directly to the municipal treasuries have been reduced and, therefore, unfortunately, the number of people who recognize that they have an interest in economical municipal administration.

The table on the next page shows the percentages of total municipal assessment borne since 1930 by land, buildings, total real property, business and income."

The table shows, sir, that the burden on real property, according to the information we have from the municipalities which were circularized has increased approximately 6 per cent.

THE CHAIRMAN: It increased from 83.96 per cent in 1930 to 89.38 per cent in 1937. However, I notice that business has not changed very much.

MR. MIDDLEBRO: No, business has not changed greatly.

THE CHAIRMAN: This is, perhaps, a little beside the question, but it just happens to occur to me---have you any information which would indicate what the average assessment in rural municipalities on farm property would be, that is the rate?

MR. MIDDLEBRO: We have no information of that kind, sir, but I think the assessment on farm properties has remained fairly static. I do not think there has been much change. Returning to the brief, I commence to read at the top of page 15:

"It will be noted that there has been an apparent reduction in current expenditures in the municipalities as a whole since 1933. There was a steady increase from 1930 to the end of 1933.

"which probably would have continued under normal conditions. The apparent reductions in the cities after 1933 and in towns after 1934 were due in large part to special help to some municipalities from the province in financing direct relief, to the funding of expenditures which became general in urban municipalities after 1932 or 1933, and to the elimination or partial elimination from the budgets of bankrput municipalities of interest and sinking fund charges or repayments of principal.

The ability of townships in the comparative absence of welfare costs to control their budgets downward is noticeable, (of course to what relative extent roadways have been allowed to deteriorate is unknown.) To a less extent the same thing is true of villages. The relation of increased or reduced current expenditures on capital valuation of improved property is to be noted.

In comparing one municipality with another tax rates are practically valueless; but in comparing municipalities with themselves they may be of value if methods of valuation have remained comparable.

It is noteworthy that the cities in spite of funding by many of direct relief expenditures and assistance from the provincial government, such as taking over certain welfare services and making a grant equal to one mill on the assessment, 17 cities have increased tax rates in 1937 in comparison with 1930. Six cities show a reduction and one has not changed.

The experience of towns is more nearly balanced. Six show increases and seven decreases.

"Villages show six increases and two decreases. Some of these are prosperous growing residential villages in the neighborhood of industrial cities with large relief and other problems. Townships are the most fortunate of all showing 14 decreases and 11 increases. The counties as would be expected in view of the number of townships within the areas show decreases.

Cities show a comparative inability to control tax rates in view of increasing welfare expenditures, decreasing assessments of real property and reduced incomes of taxpayers depending on industry for their incomes.

Cities and separate towns bore that portion of the cost chargeable locally. In counties the local cost of old age pensions was taken care of in the county budget.

The table below shows the facts for the cities and counties. Notice the drop in per capita in 1932 following a reduction in rate chargeable to the local municipality or county, and the increase from 1932 on until taken over by the province."

In 1932, the government reduced the contribution to the local municipality by 50 per cent. This table at the bottom of page 16, shows what can be done by shifting welfare costs granted, of course, that expenditures are adequately controlled.

Dealing now with mothers' allowances, I quote.

"These have been financed in the same way as Old Age Pensions. The table below shows the per capita figures for cities and counties:"

This table indicates that there was a steady increase

in mothers' allowances in cities, much larger than in counties, up until the time it was taken over by the province.

Returning to the brief, I quote:

> "The huge increase in the cities and the smaller increase in the counties is noticeable. Part of this is undoubtedly due to changes in regulations, but increases may be looked for in the future. The taking over of this cost by the province will relieve and is relieving the burden on real estate; but real relief depends on control of expenditure.
>
> Hospitalization.
>
> The table below shows the per capita costs. To get the cost outside of the cities, it would be necessary to add the cost of the towns to that of the count... , of the villages to that of the counties and of the townships to that of the counties.

This table indicates a steady increase in cost.

> "It is clear that the cost of 'hospitalization' is a heavy burden on real property assessment in the cities. The burden is less on the municipalities in the county organization, but the increase in these has been greater than in the cities. The cost in the counties and their municipalities is shared equally. Some discrepancies may appear in these figures as there may have been some confusion in filling out answers to this question. The tendencies are, however, as represented.
>
> Direct Relief.
>
> The table below sets forth the startling facts with regard to the municipal share of the expenditure on direct relief. It does not represent the total cost and most of this was funded and part of

"the cost has simply been postponed to future years."

THE CHAIRMAN: Just a moment, until we look at these figures. According to this table, the cities start at .72 in 1930 and go to 4.83 in 1937. It was very much higher in 1935, rising to 6.03. I notice that the towns rose to 4.58 in 1933 and they are now down to 2.27. This would indicate quite a drop in relief. The villages have also come down quite low. What is the explanation of the townships being 6.02?

MR. MIDDLEBRO: That is probably due to the type of township which has been considered in this brief.

THE CHAIRMAN: Some would be adjacent to Toronto?

MR. MIDDLEBRO: Yes, some of them are.

THE CHAIRMAN: Townships like East York, I suppose?

MR. MIDDLEBRO: Yes, there is the township of East York which is adjacent to Toronto, the township of London adjacent to London, the township of Nepean which is adjacent to Ottawa, and so forth.

The startling thing about this to me is that we have had fairly normal times in 1936, but there has not been, to my way of thinking, a proportionate reduction in relief. I think this year was comparable to 1930.

THE CHAIRMAN: To what do you attribute that fact?

MR. MIDDLEBRO: Personally, I attribute it to the attitude of the people. The people have adopted the attitude that the country owes them a living. I believe you will find that condition existing in all municipalities.

THE CHAIRMAN: You think there is a demand for relief in cases where it is really not required?

MR. MIDDLEBRO: I do not altogether think that is true. For instance, in the matter of Old Age Pensions,

I remember quite well when that was discussed. The estimated amount which it was considered would be required was much below the figure reached in the first year. It has gone on increasing year by year. These social costs are so easily started, but it seems impossible to stop them.

COMMISSIONER MacKAY: Has the total payment of old age pensions increased, that is the total payment made to the individual?

MR. MIDDLEBRO: The total payment made to the individual has not increased.

COMMISSIONER MacKAY: The number drawing it has increased, I suppose?

MR. MIDDLEBRO: Yes, the number drawing it has increased.

COMMISSIONER MacKAY: Part of that may be due to the fact that the people were drained of their resources during the difficult years of the depression.

MR. MIDDLEBRO: Probably somewhat, sir, but still there has been an increase. The province did take over a much greater share of the cost and the Dominion government took over a much greater share of the costs of mothers' allowances. Shall I proceed, sir?

THE CHAIRMAN: If you please, Mr. Middlebro.

MR. MIDDLEBRO: I continue to quote from page 18 at the bottom of the page.

> "The decline in 1936 and 1937 is due partly to a reduction in the relief load. The picture for the townships is somewhat distorted by the presence in the list of some large suburban townships in the immediate neighborhood of large industrial cities. Unemployment tended to concentrate

"in these areas. In some of them the provincial government paid all or most of the direct unemployment relief costs of these townships."

THE CHAIRMAN: In these figures concerning the cost of direct relief, have you included what the provincial government paid?

MR. MIDDLEBRO: No, just what the municipality paid. Continuing to quote.

"Later aid on this scale was withdrawn and there was an apparent increase in township relief costs.

In some municipalities the accumulated annual debt charges already exceed the corresponding annual relief costs, so that the postponement of the burden on real estate has come back upon it with added force. At least partial funding was absolutely necessary in some cases as the rapidly accumulating tax arrears evidenced.

EDUCATION

The table below illustrates the per capita cost of schools to the various types of municipality.

It is evident that the cost of education an all grades of municipality is high. In view of the increase of school population, the decreases from the peak must have been effected at the cost of efficiency or of the teaching staff or both. In the cities, the villages and the townships the increases in the estimated costs would seem to show that the time had arrived when expenditures on plant could not be postponed and salaries had to be restored. It is evident that municipal

"real property assessment in the province of Ontario was inadequate to support educational costs at the former standard of efficiency and that in spite of the undesirability even yet of increasing the burden on real estate assessment, educational estimated expenditures had to be increased in the 1937 budgets. If education is more than of local interest and value, it would seem that the costs should be distributed over a wider basis and that all kinds of taxpaying ability should share therein."

THE CHAIRMAN: Mr. Middlebro, what part of the cost of education does the county pay? Is that a county high school cost?

MR. MIDDLEBRO: Yes, the county pays a certain proportion of the cost of high school students attending high schools within any municipality in which the high school is situated.

I quote from the brief:

The Effect of Growth of Educational and Welfare Costs on the Budget.

"What has gone before has shown the general effect of educational and welfare expenditures on municipal budgets.

Recently a study has been made in one urban municipality showing the effect of these expenditures on the tax rate, that is, for the most part, on real property. The table below shows the facts."

THE CHAIRMAN: Let us just look at this table for a moment.

MR. MIDDLEBRO: First of all, the overhead is listed. In 1905, this was .19 mills and in 1937 it was 1.34 mills.

Insofar as the police were concerned, the increase was not very great. The next item is the fire department. Part of the large increase in these figures was due to the fact that the cost of water and hydrant rent was included in the last year and it was not before. The cost of parks has almost doubled and welfare is almost eight times as great as it was in 1905. The cost of health is almost twice as much and education has doubled. The difference in the tax rate is the difference between 19 mills in 1905 and 35.70 mills for public school supporters in 1937. In 1937, the separate school supporters paid 39,60 mills.

Quoting from page 21 in the brief, I read:

> "The growth of services to persons as persons as shown in welfare, health and educational expenditures has been phenomenal. Including the municipal share, direct unemployment relief has quadrupled. It would appear that municipal appropriations for unemployment relief which started about 1922 and have been made every year since will not soon disappear unless the total costs are taken over by the province or the Dominion or the two in cooperation. The table below tekan from the Annual Reports of the Bureau of Municipal Affairs shows some facts with regard to charitable and health expenditures and direct unemployment relief."

I regret that the direct unemployment relief figures are not very complete.

THE CHAIRMAN: I notice that the expenditures listed under the heading of'Charities and Hospitals' take quite a drop from 1933 onward.

MR. MIDDLEBRO: Of course, that was the year which the social services, such as mothers' allowances and old

age pensions were taken over by the province. I think, perhaps, that is the reason. Certain health services were also taken over.

The next heading in the brief is,"Measure of the uneconomic burden on real estate." Quoting from the brief:

> "Statistics of the net return on investments in real estate for the last fifteen years are not available. If they were, some comparison might be made with results of other forms of investment.
>
> The only ready measure of the burden on real estate is supplied by the tax arrears record. Unfortunately these are not readily available for all types of municipality. They are available for the cities, which undoubtedly have a greater amount of tax arrears on account of greater industrialization and greater welfare expenditures. The facts are available for some other provinces and show that towns, villages, and urban municipalities have also suffered.
>
> The table below shows the increase in tax levy and gross tax arrears (before deduction of reserves.)"

These reserves are the reserves provided for in the Assessment Act, whereby municipalities are permitted to make certain deductions on estimated tax rates in making up the budget.

THE CHAIRMAN: In this table which follows, the tax levy is in the first column, is it not?

MR. MIDDLEBRO: Yes, and the increase of 1936 over 1932 is shown in the second column.

THE CHAIRMAN: That is the increase in the tax levy, is it?

is it not?

MR. MIDDLEBRO: Yes, the increase in the tax levy, and then the increase of arrears is shown in the third column. These are the increases of 1936 over 1922.

Startling facts are evidenced if you look at the column for the city of Windsor. There was an increase in gross tax arrears in 1936 of $5,000,000, which is greater than the tax levy for 1936.

THE CHAIRMAN: I do not think you could consider Windsor, it is not a shining example.

MR. MIDDLEBRO: There are other cities such as Hamilton and London which show large increases.

THE CHAIRMAN: Toronto shows a very substantial increase, too.

MR. MIDDLEBRO: Even a small city such as the one from which I come shows a substantial increase although that city has not a large amount of industrialization.

On page 23 of the brief, the conclusions reached are shown. The conclusions, as set out, are:

> "The committee, as a result of its study, wishes to state its opinions to your honourable body as follows:
>
> 1. That educational costs should fall on all forms of taxpaying ability."

COMMISSIONER DAFOE: Can you be more explicit in listing the various forms of taxpaying ability which should contribute? Do you mean income tax?

MR. MIDDLEBRO: There was an amusement tax in this province a short time ago which was abolished. It is the feeling of the organization which I represent that this was one form of tax which might have been applied to education. The feeling is that these taxes have been a burden on real estate, and that these services are not.

those direct services for which real property should pay. It is admitted that education has an indirect bearing upon real property, but not to the extent of bearing 100 per cent of the cost of education. Now, as to the forms of taxation in which a province might indulge--it may indulge in almost any form of taxation. The Dominion field of taxation is unlimited.

THE CHAIRMAN: It was suggested to the Commission in the west, that every citizen who resides within a municipality and is able to pay taxes should pay something towards the cost of municipal government so that person would feel an interest in the government and in the cost of carrying on the government. It was pointed out to us in some of the western cities that the taxpayers actually represented only a fraction of the total voting population.

MR. MIDDLEBRO: The same thing holds true in the municipality from which I come. The taxpayers represent less than one-third of the voting population.

THE CHAIRMAN: I would have thought that in Owen Sound you would have had a large taxpaying body. Most of the people own their own homes, do they not?

MR. MIDDLEBRO: Yes, a great many people own their own homes.

COMMISSIONER DAFOE: What percentage of your education cost is taken up by provincial grant?

MR. MIDDLEBRO: A very small proportion; I cannot tell you what proportion, but the province makes a certain grant to technical schools and a small grant to collegiate institutes and high schools. In the cities, this is very small.

THE CHAIRMAN: It makes grants, of course, to the schools in townships, rural schools.

MR. MIDDLEBRO: Yes, the government does.

COMMISSIONER DAFOE: The government does not give a grant per school room, does it?

MR. MIDDLEBRO: No, but there is a small grant for such things as agriculture. There are certain specialized subjects which are given grants, agriculture, manual training, and domestic science. I believe there is a small grant given for these subjects, but for the matter of general education, except for vocational and technical schools, I do not believe there is a grant.

THE CHAIRMAN: Are you sure of that, Mr. Middlebro? I was under the impression that the public schools throughout Ontario as well as the separate schools, received a public grant. I was under the impression that there was a substantial sum voted each year, but how much it amounts to in the case of each school, I do not know.

MR. MIDDLEBRO: There are small grants made in the cities, but they are quite small, sir. The government does make a substantial grant to the township schools.

THE CHAIRMAN: Oh yes, that is what I was thinking about, the township schools.

MR. MIDDLEBRO: The only grants which the urban schools receive, of which I am aware, are those grants for specialized subjects such as agriculture.

COMMISSIONER DAFOE: We had representations made to us throughout the west that the provinces should carry at least 50 per cent of the educational costs. This rose, in some places, to the total cost, excepting the cost of the building and the maintenance of the schools.

MR. MIDDLEBRO: We recommend on the next page, sir, that the provincial government should assume from 33 1/3 to 50 per cent of the cost of education, according to the

type of municipality and the local needs.

COMMISSIONER MacKAY: What do you mean, in number one--going back to that question for a moment--do you mean that the municipality should have wider powers of taxation for the purpose of education, or do you simply mean that the cost of education should be distributed more widely on the province?

MR. MIDDLEBRO: It should be distributed more widely on the province as a whole.

COMMISSIONER MacKAY: You are not concerned with the method of getting the revenue?

MR. MIDDLEBRO: No, unless as was suggested, I believe by the Chief Justice, that in the west there was a suggestion made that all persons in the municipality should be taxed in some way. There is a poll tax now on male inhabitants over 21 years of age, but it is not very effective.

COMMISSIONER MacKAY: Can you collect it at all?

MR. MIDDLEBRO: In some places, but I do not believe it can be collected in Toronto.

Continuing with the reading of our conclusions:

2. That welfare services, while in some instances being of indirect benefit to real estate, have in many cases no discoverable relation to realty values.

3. That welfare costs should be largely borne by income taxation and only a sufficient proportion should be charged locally as to ensure local co-operation in cutting costs.

4. That direct unemployment relief is not a proper municipal charge. Municipalities should only have to bear the cost of what may be called 'chronic' relief which is more of a neighborhood

"matter.

5. That realty capital values have been greatly reduced as a result of including in the tax levy certain social service and educational costs which the municipalities have been required to pay.

6. That taxation on real estate as at present applied and for the reason set forth in section 5 above, is one of the real deterrents to property investment and therefore to building and employment in the building trades.

It recommends, therefore, that--

1. The provincial government assume from 33 1/3 per cent to 50 per cent of the costs of education according to the type of municipality and local needs.

2. The cost of hospitalization over and above a fixed per patient day charge on the municipality, not exceeding, say, one dollar, be borne by the province.

3. Direct unemployment relief costs be assumed by the Dominion and province or the two in co-operation, leaving to the municipalities only relief due to causes other than economic unemployment such as municipalities have always borne.

4. Real estate taxation be reserved for the municipalities and that it be supplemented by such taxes as the amusement tax, which may be successfully administered locally.

Respectfully submitted by the
committee for the
ONTARIO MUNICIPAL ASSOCIATION".

THE CHAIRMAN: Thank you, Mr. Middlebro, the brief will be filed as exhibit number 281. It is a very interesting brief and will receive our most careful consideration.

EXHIBIT NO. 281: Brief of the Ontario Municipal Association.

THE CHAIRMAN: The next brief to be heard is that of the National Construction Council of Canada and its constituent organizations.

SUBMISSION BY

NATIONAL CONSTRUCTION COUNCIL

OF CANADA

MR. I. MARKUS, Secretary: Mr. Chairman and Members of the Commission: As secretary of the National Construction Council, I should like to have the privilege of introducing those who are charged with presenting the brief to you to-day. Mr. Gordon M. West, F.R.A.I.C., (Toronto), President of the National Construction Council of Canada; Past President of the Royal Architectural Institute of Canada, is on my left. Mr. W. W. Goforth, M.A., F.R.S.S., (Montreal), Manager of the Canadian Institute of Plumbing and Heating; formerly Professor of Economics, McGill University, is on my right. Mr. C. C. Harrington, B.Sc., (Montreal), President of the Canadian Construction Association, is also here. Mr. J. Clark Reilly, (Ottawa), General Manager of the Canadian Construction Association, I think he is behind me. Mr. M. M. Mendels, M.A., B.C.L., (Montreal), counsel for the Canadian Institute of Plumbing and Heating, is also present.

Mr. West, I think, will introduce the brief.

MR. WEST: Mr. Chairman and Commissioners, you have in your hands a copy of the brief.

THE CHAIRMAN: Perhaps, before you start in on the brief, Mr. Markus could tell us what constituent organizations you have in this national construction council.

MR. WEST: That is just what I was about to do, sir. There is an introductory letter which I would like to go through first. I will read it:

"Gentlemen:

On behalf of the National Construction Council of Canada, I now transmit to you a brief which has been prepared to show the effects of unduly high taxation of realty on our industry.

The construction industry, when functioning normally, is one of the principal means of employment in our country, both for skilled and common labour.

In furnishing one of the three great primary needs; namely, shelter, it touches closely, continuously and intimately, the lives of our entire population.

Yet conditions are such that investment in improved realty is to-day regarded by sound investors as a last resort and to be avoided if at all possible. We show that this attitude is largely due to the effects of the taxation of improved realty on the consumer of our products and on the large portion of the population dependent on our industry.

We believe that consideration of the facts now presented will enable you to make recommendations in your report, which will result in remedial

"legislation in Municipal, Provincial and Dominion fields.

In submitting this brief on behalf of the constituent bodies represented by the council,--"

Whose names I will give you in a moment.

"--a list of which is attached hereto, I should like to point out that the Canadian Manufacturers' Association and the Trades and Labour Congress of Canada, while presenting separate briefs on matters not directly related to construction, have participated in the preparation of this brief, and join in its submission.

I have the honour to be,

Yours very truly,

G. M. West,

President."

MR. WEST: This organization is a council consisting of representatives appointed by its constituent organization, who meet together and discuss matters affecting their mutual interests. It is largely a voluntary organization. The constituent organizations are: Canadian Construction Association - -

THE CHAIRMAN: Take the Canadian Construction Association first; tell us a word or two about each.

MR. WEST: The Canadian Construction Association is a contracting organization in the building trades.

THE CHAIRMAN: General contracting?

MR. WEST: General and smaller contracting. They represent a great many of the builders in the local districts, such as the City of Toronto. The Canadian Institute of Plumbing and Heating is an organization largely of the manufacturers of plumbing goods. Through their customers they naturally, to a large extent, represent the opinion of the employing plumbers. The Canadian Manufacturers Association is represented because a great many of their members manufacture building supplies, building materials. The Engineering Institute of Canada explains itself. Engineering is of vital concern to construction. The Royal Architectural Institute of Canada again explains itself. Trades and Labour Congress of Canada is represented by one of their leading members in the building trades union. The Asphalt Roofing Manufacturers of Canada, and also the Canadian Lumbermen's Association, and the Canadian Paint, Oil and Varnish Association, the Brick Manufacturers' Association, the Canadian Council of Master Painters and Decorators, the Canadian Founders and Metal Trades Association and the Structural Clay Tile Association. This brief is also endorsed by the Ontario Retail Lumber Dealers Association, Inc., who have assisted in its preparation. They are not eligible under our con-

stitution, not being a national body, to be members of the Association.

The Council operates, in addition to its activities as a Council, a number of regional committees; that is, in about twenty different cities and centres throughout Canada we have regional committees, the personnel of which is not strictly in alignment with our membership but is made up of people in those districts who are interested in the construction field. As a general introduction to the brief I would like to state that it will show:

FIRST: Some aspects of the real estate tax situation;

SECOND: The retarding effects of this excessive taxation on the Construction Industry, due to the reluctance of sound capital to enter into equity investment of improved realty;

THIRD: Some of the legislative difficulties which are contributory to the unsatisfactory conditions in the Industry.

As other organizations presenting Briefs to the Commission, have dealt with the general question of the disproportionate burden placed upon real estate by the present form of municipal taxation, our Brief deals particularly with the effects of this taxation upon the Construction Industry. The importance of construction and its influence on other industries and on living and economic conditions cannot be over-stressed. The Construction Industry is unique in its ability to provide great diversity of employment. Its ramifications are so far-reaching that it is difficult to find any

"major industry in the Dominion not seriously affected by its prosperity.

At the conclusion of this Brief, certain suggestions are made for alleviating the difficulties of the Industry and for improving the position of the consumer of its products."

Mr. Goforth will carry the burden of the body of the brief.

MR. GOFORTH: Mr. Chairman, and Commissioners, the first few pages of the brief proper, that is pages 1 to 5, up to the beginning of paragraph 7, I think cover ground which has been fairly fully dealt with in the preceding briefs that have been discussed and read before the Commission. They give something of the historical background of the increasing burden of real estate taxation, and are not directly related to the construction industry. On the suggestion of the rest of the delegation, I shall attempt to make a summary of those pages, and introduce the brief proper with these comments.

"It may be possible to prove that other factors have partially contributed to the present unsatisfactory condition of the building trades."

On the other hand, we respectfully submit that the most serious retardation of economic recovery referred to in section 5, sub-section 2 of the Commission's terms of reference, is to be found in the construction industry of the Dominion, which we represent.

"But there is a deep-rooted conviction throughout this industry that the one great primary cause of continued depression in construction lies in the present high level and inequitable system of municipal taxation on real property. We submit that the facts contained in our brief provide ample evidence to justify this belief..

"The following are a few selected examples of the evidence, all of which evidence is contained in the brief, or its appendices as regards the increasing and disproportionate burden of taxation which bears so heavily on present and prospective owners of real estate and which has made investment in this field no longer attractive or profitable. These are a few selected examples:

(1) In the Cities of Edmonton and Calgary, the amount of property sales for tax arrears in each of the years since 1922 has been higher, often by 50% or more, than the annual total of tax collections. In 1935 and 1936 the same was true of Regina, Saskatoon, and Victoria B.C. This condition is only slightly less serious in many other large Cities of the Dominion.

(2) In the ten year period from 1926 to 1936, there was a slight rise averaging 5% to 10% in the total assessments of twenty leading Canadian cities, yet the saleable total value of real property had actually declined during this period in the majority of these cities. In spite of this, every city of the twenty had a higher tax levy in 1936 than in 1926. In Toronto it was 40% higher; - in Vancouver 80% higher: - in Windsor 60% higher; - in Montreal 50% higher; - in Quebec City 35% higher; - in London, Ont., 25% higher.

(3) Out of all public revenues received from different categories of Government our municipal revenues, most of which are derived from real estate, represent 57% of the total, - in New Zealand they are only 18.3%,

"in the United Kingdom 17.5%, and in Australia 14%. It would therefore appear that our over-emphasis on real estate as a basis of taxation is without precedent in the other parts of the British Commonwealth."

THE CHAIRMAN: Do you know what the situation is in the United States, Mr. Goforth?

MR. GOFORTH: It rather parallels our own Mr. Chairman. In fact, many of those who have given many years of study, such as Dr. Brittain, who appeared the other day, speak of it as a continental rather than a Dominion problem. Most of our methods of taxation, and particularly methods of collecting and assessing municipal taxes, are similar on both sides of the border.

THE CHAIRMAN: Have we followed them, or have they followed us?

MR. GOFORTH: I think the evidence indicates we have probably followed them, much to our regret.

" (4) A typical case to illustrate the general trend is provided in Appendix "C" to our brief, and concerns the City of Ottawa. In the 25 year period ending 1936, population increased 57%, taxable assessment 141%, but the tax levy rose 350% in the same period.

(5) During the past few years taxation has absorbed from 40% to 100% of gross rentals, that is of the income from real estate. We have yet to find any other revenue paying group in the Dominion, even in the highest income-tax brackets, who are called upon to pay such a vicious proportion of their precarious

revenue as are real estate owners as a class.

The National Construction Council is not directly concerned with present real estate ownership as such, but it is not difficult to realize the intimate relationship of the facts just cited with the recent history and present condition of the construction industry. Apart from certain special classes of construction such as engineering, industrial and commercial, this industry depends on two main sources of public demand, namely the renovation and maintenance of existing structures and the building of such annual increment of shelter in number and quality as may be required by population increase and by the normal obsolescence and replacement of property.

We would respectfully draw your attention to a few further selected facts which illustrate how seriously our industry has suffered, and continues to suffer from the causes above cited:

(1) The index number of employment, the base for which is 1926 in each case, fell in all Canadian industries to a low of 86.3 in 1933, and rose again to 102.9 in 1935 and again to 114.1 in 1937. In the building trade, however, it fell to a low of 39.1 in 1933, had recovered only to 56.2 in 1935, and was still well below 60 in 1937.

(2) Yet these figures are, if anything, on the optimistic side. The real recovery, as far as construction is concerned, has been in the engineering classification, the index number of which had reached 110.5 in 1937. The remaining groups in this industry were still

"working at less than 50% of the 1926 volume of business at the end of 1937, and that figure is still lower to-day, based on the first three months of this current year.

(3) These figures for 1937 are of particular relevancy since it was during that year that the Home Improvement Plan was receiving its greatest impetus and when the Dominion Housing Act was beginning to attain favourable results. An unprecedented degree of private and public effort was put forward by the construction industry, the chartered banks, and the National Employment Commission during 1937 to secure an increased volume of construction work. Yet this industry continued to lag far behind the general economic and business tide of the Dominion.

(4) There was, moreover, no fundamental international reason for this lag. Taking the index number of dwelling units built, without State assistance, in Great Britain, it rose to the figure of 189 by 1936. In Canada during the same period it had fallen 30% to the figure of 70.4."

With your permission, Mr. Chairman, I will read now from paragraph 7, page 5, onwards; with this minor amendment. On page 4, the fourth last line of the page, there is a statement "Whereas in the United Kingdom - - - " This needs some amendment; it should be worded "That the National Government bears 50% in the form of State subsidies to the local education, and the rest of it is borne by local revenue resources, a large part of which, of course, is local rates on property, and a part of which is collected from public utility revenues". So that it would hardly be fair to say that the whole cost of local education is borne by the National Government.

To pass on to paragraph 7, on page 5:

"There is no greater index to the personal characteristics of Canadian citizens (such as financial responsibility and integrity) than the ownership of a home or of other forms of improved real estate. The present weakened position of owners of real estate is partially responsible for undermining these standards and characteristics.

Improved real estate, through yielding a low net income, has degenerated as a form of property suitable for investment, discouraging the entrance of capital into the construction industry which is dependent upon it. Another resulting factor of high taxation is the forfeiture of real estate to municipal authorities, particularly apparent in the case of vacant non revenue-producing land.

The rent from residential and other property depends on the relation between available supply and effective demand. With the decline of the latter, together with increasing mill rates and unnaturally high assessment values, the annual income from property frequently fails to meet fixed charges which have been imposed on an arbitrary basis, as for example, municipal taxes.

The absence of adequate net income from improved realty has created widespread financial weakness in property ownership and in the construction industry. The impossibility of gaining a net return has frequently resulted in improper administration, wherein owners have been led into obtaining the maximum possible out of a property before yielding it up to taxing

"authorities, mortgagees or lien holders.

The influence of high taxation on realty also results in a large number of foreclosures and forced sales of real property, whenever there is a recession in economic activity or a business depression. The effect of such foreclosures has been to provide unfair competition for new buildings."

The next paragraph merely refers to specific cases of the heavy weight of taxation on particular properties which are given in Appendix A. to this report. I will pass on to paragraph 9.

"The absence in municipal assessments of an allowance for depreciation accelerates the destruction of property values and is a definite deterrent to the improvement and even necessary repair of improved real estate for the reason that owners who have received no allowance during the depreciation of their property are likely to be penalized by way of increased assessments for such repairs or improvements as they may make."

I might point out, Mr. Chairman, that this question of depreciation would be taken care of automatically if, as in the case in England, - and I think Mr. Jennings gave evidence on this matter a few days ago, - the Assessment was based on the yield of the property rather than on its fictitious capital value. If it were based on the yield of the property there would be no need for depreciation allowance from year to year.

THE CHAIRMAN: That would mean a revolution in the whole basis of assessment.

MR. GOFORTH: Yes.

COMMISSIONER ANGUS: Is it equally true of all provinces, Professor Goforth, that there is no allowance

depreciation?

MR. GOFORTH; Of course, it is allowed in the income tax.

COMMISSIONER ANGUS: But I mean for assessment.

MR. GOFORTH: As far as we are able to ascertain, we have not found any exceptions to that rule.

"In the promotion of the Home Improvement Plan, it was considered necessary to approach provincial and municipal authorities to arrange, wherever possible, that improvements would not be subject to increased assessments. In this way, we believe, the National Employment Commission gave practical recognition to the burden of disproportionate real estate taxation.

11. INSECURITY OF HOME OWNERSHIP RETARDS CONSTRUCTION.

The burden of present real estate taxes renders home ownership insecure and retards construction in many ways. In owner-occupied homes the owner has to pay high taxes which are equivalent to a mortgage on his property, enjoying rights even prior to a first mortgage.

In many city communities it has become cheaper to rent than to own. For example, in Toronto, which has long been recognized as a city of owner-occupied homes, the number of rented homes has increased from 36,269 in 1926 to 48,972 in 1936, an increase of 12,703."

THE CHAIRMAN: Have you the figures of the number of owned-homes in Toronto?

MR. GOFORTH: The owned-homes are now slightly less than the number of tenanted homes, which is exactly the opposite of what was the case ten years ago. The figures, I think, are something like 53 and 47.

"The renter, who is in a flexible and unencumbered position, is not bothered by the likelihood of seeing property values reduced by advances in tax rates. Only when the costs of producing and carrying real estate and the taxes operate to reduce the supply of building accommodation, and rents rise, do tenants pay the full measure of real estate taxes.

Through its influence on rents, high taxation of real estate contributes to the 'doubling up' of two or more families in a single inadequate house, thus lowering the standard of living. This naturally restricts the demand for housing."

I have made a marginal note, that at the present time there are some 62,000 dwelling units in Canada less than the number of families, given in the Official Statistics, which would indicate a doubling up to that extent.

THE CHAIRMAN: How would apartment house dwellings be dealt with in that calculation?

MR. GOFORTH: That is dealt with, each apartment as a dwelling unit.

THE CHAIRMAN: And there are 62,000 families more than separate dwelling units?

MR. GOFORTH: That is the present situation. In 1929 there were 30,000 more dwelling units than families, indicating a surplus. Exactly the opposite is true now.

"12. IMPORTANCE OF THE CONSTRUCTION INDUSTRY.

This Industry is of vital importance to Canadian business prosperity, both of itself, and because of its inter-relationship with other industries. Of all employees, one-ninth are normally engaged in producing construction materials. A similar proportion are engaged in or dependent upon construction proper. One-tenth of all freight cars

"are normally used in the transportation of construction materials and the distribution of these supplies engages one-twelfth of all wholesalers. Three-quarters of every construction dollar spent goes to labour either on the job or in the production and transportation of construction materials.

The stagnation in the construction industry, therefore, prevents our national purchasing power from expanding, and is restricting the market for products and services of many other industries.

13. THE LAG IN CONSTRUCTION IN CANADA.

In spite of an increase in the population of about 12% since 1929, the volume of construction is still less than 40% of what it was in that year. The decline below the average year 1926 is also approximately 40%.

Early in the recent depression, it became evident that prompt action was necessary in the construction industry. By its public works programme in 1934, by the enactment of the Dominion Housing Act in 1935, and by the launching of the H.I.P. under the National Employment Commission in 1936, the Dominion Government definitely recognized the serious situation and the need for action.

Valuable as these measures have been, the fundamental difficulty is excessive municipal taxation; a genuine stimulus to construction can come only with the alleviation of this burden."

The next paragraph has already been dealt with in the preliminary remarks, and I think that paragraph 15 has also been dealt with. Passing to paragraph 16:

"The Chart of Employment, Illustration 111, (The third page following, page 12,) shows that employment in construction fell further than employ-

"ment in construction is included in the general figure, as are those industries which are subsidiary to the construction industry. Thus the lag in construction employment contributes to the retardation of general industrial employment."

I will pass over the rest of that paragraph as it has already been dealt with. Then paragraph 17:

"The extent of the general recovery in Canada since the low point of 1933 has been shown in Illustration 11.

While family purchasing power has equally recovered, the money is not going into houses. Instead, people are buying other things. This is due to general uneasiness, high realty taxes and modern sales methods of products that are not subject to such severe and direct taxation as the buying or building of a house which usually represents the largest single purchase made by the average citizen. Yet housing is a permanent asset to the national wealth of the Dominion; the failure to investment money in it does not promote the general welfare and stability of the people. (See Illustration IV).

18. THE DEMAND FOR CONSTRUCTION.

The decline in the volume of construction was far more severe than in general business during 1929-33 and while the volume of business has now largely regained the depression losses, the volume of construction is merely 40% of its 1929 peak. The close pre-depression relationship of the volume of business and construction has been definitely severed because businessmen apparently are unable to visualize an adequate return on their investment in this field. One of these important deterrent

"factors is the present level of real estate taxation and the threat of even higher taxes.

It may be contended that the low level of residential rents is an important influence retarding residential construction. It will be noted, however, that the low cost of construction largely equalizes this factor. Even when construction costs were rising, the volume of construction continued to expand. It therefore appears that the uncertainty of obtaining an adequate return on the residential building investment is the main deterrent to a resumption of normal building. The same reason prevents the successful operation in Canada of building societies, which have played so large a part in the promotion of residential construction in the United Kingdom.

19. HOUSING IN CANADA AND THE UNITED KINGDOM.

The Chart, Illustration V, is illuminating as showing the comparison between the number of houses built in Canada as compared with Great Britain (England, Scotland and Wales). There has been an almost consistent rise in the number of houses constructed by private enterprise in Great Britain since 1926. From 1930 the number built with Government assistance dropped materially, and during 1935 and 1936 it was negligible. This chart, in fact, shows that twenty times the number of houses are being built in Great Britain for a population only four times that of Canada.

At the date of the Armistice there were slightly less than eight million houses in existence in England and Wales and the expansion since that time is shown by the building of 2,804,888 new houses up to December 30th, 1935, of which approximately

"2,000,000 were erected by private enterprise. The private enterprise referred to is mainly the activities of building societies.

A good many years ago this type of house building finance was common in Canada. At the present time it is practically non-existent except in one or two localities. Some of the reasons for this are:

(a) The realty tax background, in that the amount of the tax is excessive, and if unpaid, forms a cumulative claim ahead of the mortgage irrespective of the occupancy or the income position of the property mortgaged.

(b) Difficulties facing mortgagees in realizing upon the security of their investment; since the income or rent from property does not guarantee the payment of taxes, and is frequently diverted, mortgagees are often compelled to pay considerable arrears of taxes, when assuming control of a mortgaged property, in addition to being subject to the delays and expense of litigation; this influence operates to reduce the margin of safety of mortgages and to withhold numerous properties from the control of mortgagees who might place them on a self-sustaining basis.

(c) The provisions of the Canada Interest Act preclude the calculation of interest in advance on amortized mortgages, which in Canada are repayable every five years by the borrower.

It has been argued in previous briefs presented by the National Construction Council to other bodies that the present system of first and second mortgages has proved unnecessarily expensive to home owners.

"Changes to permit eventually of a better type of "home" finance, probably along the lines of the 'Building Societies', are urgently needed from the point of view of the home buyer and to assist the stability of the whole business structure in depression times."

THE CHAIRMAN: Do you think it is likely that that idea, - the building societies, could be revived to any extent? In Canada we have passed through that phase, - perhaps wrongly passed through it, - but we are through it now. A building society is a co-operative enterprise, Of course, in some sections of the country there is a return to the co-operative idea, but do you think it would be likely we would have a return to that method of house-building?

MR. GOFORTH: Not without a serious change in the whole legislative system, which has made building societies impossible in recent years. I understand a certain big loan company, with head office in Toronto, stated recently that they would immediately change to the building society type of doing business if the Canada Interest Act were amended, if certain interest moratoria were removed to make it possible for them to act on the previous basis, and if the legislation was made favourable to them, particularly the payment of property tax by the tenant, as occurs in Great Britain.

THE CHAIRMAN: Of course, the Interest Act provision was aimed at preventing an excessive rate of interest being concealed in a monthly payment, and from that standpoint it was important and desirable.

MR. GOFORTH: There has been considerable discussion by the present Minister of Finance, - a discussion with the Council, and several members of the Montreal Group of the National Construction Council, have been studying this

g the past year, notably Mr. R. H. Macdonald, who was expected here to-day but was unable to attend. We have a letter and statement on building societies, sent by Mr. Macdonald, to be filed if the Commission would care to have them.

THE CHAIRMAN: We can have that at the close of the brief. Can you tell us this: What is the objection to the existing Act? There is no reason why, under the existing Act, a loan should not be made at a certain defined rate of interest, and then provision made that it should be payable by monthly instalments. As I recall the provisions of the Act, the Act is aimed at preventing a concealed rate of interest which the borrower does not realize he is paying.

MR. WEST: I think that might be answered, at any rate, to an extent, by referring to the present procedure of the loan company who issues debentures; that is, they take the savings of the people in the form of $100.00 debentures or something of that sort, instead of by monthly or weekly subscription, but they terminate those debentures on a five year period, because they undertake to pay a fixed rate of interest for five years. If they make the term longer, the mortgage can be paid off by the borrower, and they must continue the interest rate as they have contracted. Therefore, they cannot make their term longer than the five years.

THE CHAIRMAN: That is true, but is that the point that is objected to, - the five year term?

MR. WEST: That is one of the points. The five year term is too short for the amortizing of a building society loan. Then again, to comply with the provisions of the Canada Interest Act I understand you have to go through almost as many calculations of interest as is complained about in the administration of the Dominion Housing Act, and it is quite a substantial burden on the interest of the mortgage

over twenty years.

MR. GOFORTH: I will read paragraph 20:

"The construction industry is perhaps one of the most complicated of all industries in that its completed product is to a large extent assembled in the outdoors at the mercy of weather conditions, with a labour turnover which begins almost with the turning of a sod, and changes with every process and trade. In addition it is subject to the complicated arranging and synchronization of material deliveries.

It might be expected that this very complication would have developed a simplification of the regulations and inspections affecting it. This, however, is not the case. In principle the industry is subject to practically all the regulations affecting other industries and, in addition, municipal building regulations and inspections pertaining to health, safety, wages and hours and numerous other factors, many of which are local in character and frequently divergent in their requirements to meet similar conditions. Many of these regulations, however, are sound in character and have served a purpose in that they have protected the public from defective, dangerous and unsafe workmanship.

Reference must also be made to the multiplicity of reports, statistics and other information required separately, from time to time by the Dominion, Provincial and Municipal Governments and by various public departments. These are furnished at great cost in time, personnel and expense and result in considerable duplication and overlapping. The adoption of one or two simplified standardized

"forms embracing all the information required, would be beneficial to this industry.

Another influence affecting the construction industry is the Federal Sales Tax of 8% upon building materials. Although the same tax applies on other commodities, this tax has been calculated to amount to approximately a 4% increase in the cost of building. As municipal assessments on real estate are based on the cost of the property, the owner is thus compelled to pay approximately 3% annually on the 4% increase in the cost thereof (due to the present Sales Tax) during the full life of the property. This is just another contributing factor in the unattractiveness of real estate as an investment.

SUMMARY

The Brief which we have presented may be summarized as follows: -

(a) Added responsibilities and social services have made increasing demands upon municipalities, and have placed a heavy burden upon real property which provides the major portion of municipal revenue. This has discouraged home ownership, investment in improved realty equities, and therefore new construction.

(b) Municipal taxes are unduly concentrated upon real estate, but municipal expenditures benefit all citizens as well as the owners of real estate.

(c) Municipal land and property taxes comprise a higher proportion of total taxation in Canada than in any other British country, discouraging the creation of permanent assets, reducing the standard of living as regards shelter and ser-

"iously affecting progress in a major industry-construction.

(d) The proper basis of all taxation is ability to pay (i.e. income), but real estate taxation is based upon an assessed capital value, in many cases resulting in a capital levy against property owners.

(e) High taxation upon real property results in a low net income therefrom, discouraging the entrance of capital into home-ownership and construction. A direct consequence is the financial demoralization of the numerous trades and sub-trades in the building industry, which is reflected in the weakened credit that now pervades it.

(f) Lack of provision for obsolescence or depreciation of building in municipal assessments is unjust and a definite deterrent to improvement and even necessary repair. Further, under the present system, owners are frequently penalized by way of increased assessments for modernizing and repairing their property

(g) The effect of (f) above and high taxation of improved real estate contribute heavily to poor housing.

(h) The construction industry, when compared with other industries and with increasing population, is still at an abnormally low level of activity, - a fact which has already received Government and general recognition.

(i) The construction industry is of vital importance to Canadian business prosperity in view of its correlation with other industries. Its sub-normal activity restricts the market

"for products and services of every other industry, thus retarding our national purchasing power.

(j) High municipal taxation results in mortgage foreclosures and forced sales, making available numerous properties at sacrifice prices, to the detriment of new construction with attendant unemployment.

(k) To improve the position of the Construction Industry, which is essential to the progress and development of our country, it is necessary to relieve it of a portion of the existing heavy burden of municipal taxation and change the present basis of assessment on real property from capital valuation to income.

CONCLUSIONS

From the foregoing, it is apparent that the Industry which the National Construction Council represents, is vitally affected by the present system of municipal taxation and by the consequent high taxes upon real estate.

We suggest that your Commission give serious consideration to the following:

1. Measures for Reduction of Real Estate Tax Burden.

(a) A reduction, equivalent to the cost of educational and social services, should be made in the municipal taxation of real estate, bringing immediate relief and aid in many quarters and encouraging the easing of prevailing mortgage conditions.

(b) The obligation for education, unemployment relief and other social services, should be borne by government authorities other than

"municipalities, and not from revenues derived by taxation of immovable property.

11. Measures for Placing Municipal Taxation of Real Estate on a More Equitable Basis.

(c) That the income from, rather than the capital of, real estate, should be made the basis of municipal taxation.

(d) Alternately, that adequate provision be made for depreciation and obsolescence of real property in municipal assessment regulations.

(e) That Courts of Appeal be established by the Provincial authorities for taxpayers who are not satisfied with decisions of Municipal Boards of Revision.

111. Measures of Economy Which Will Wholly or Partially Cover the Proposed Reductions in Municipal Real Estate Taxation.

(f) More effective regulation of Municipalities by Provincial authorities to ensure

(1) Maximum economy in municipal administration.

(2) Merging of municipal departments where feasible.

(w) Co-ordination and simplification of municipal building regulations.

(g) Taxation procedure in general should be simplied and more economically administered. Unified taxing procedure should replace present duplicate systems covering the collection of taxes. The income tax and the sales tax provide numerous illustrations of such duplication."

MR. MARKUS: Mr. Chairman, there are certain members of the Council who would be prepared if you

cared to ask questions on various topics, to answer them.

THE CHAIRMAN: We have reached the hour of adjournment. Do you mind staying over until to-morrow?

MR. MARKUS: I think, with the exception of Mr. Harrington, the rest of the gentlemen making up this delegation will be very glad to comply with your request.

THE CHAIRMAN: I do not know that we need detain you. You have presented an interesting and valuable brief. The problems you have raised here and discussed, - taxation on real estate, - are problems we have had before us ever since the Commission opened, and in every City we have visited we have had that phase presented, not as affecting the building industry, although that has been incidental, but emphasizing the undue burden, and we will no doubt have it to-morrow in the City of Toronto Brief. I do not suppose you can add anything to the brief as establishing your proposition, that the depression in the building industry is due to high taxation. Is there anything you can add to that?

MR. GOFORTH: Mr. Chairman, we have limited the whole brief to one section of the Commission's terms of reference.

THE CHAIRMAN: You have made out a prima facie case. I do not know that there can be anything more said on that point than you have already said.

MR. WEST: The questions which we thought you might spring on us, - if you like to put it that way; 1, How can the basis of assessment be changed from capital to income?

THE CHAIRMAN: That is a question which will probably require some time to develop.

MR. WEST: Then we thought, among other things, you might raise the question of construction costs. Mr. Harrington came up from Montreal; he is really an expert on construction costs. If that question is going to be raised we would like it to be raised now.

THE CHAIRMAN: I do not think we would go into that detail in connection with the matter. We approach it merely from the standpoint of taxation, and the burden upon real estate. I suppose it is a fact which everyone must recognize, that in periods of depression people do not normally spend money in building new houses. If they have means and want to put up a new industry, or a large building, they may do it because costs are lower.

MR. WEST: That is one point which might be developed in further discussion, in that most construction people believe that in the system of taxation we now have, mortgage foreclosures are much more prevalent on the North American Continent, than they are in other parts of the world, and that that is rather a body blow under the belt to an industry which is already taking the form of grief which you have just mentioned.

THE CHAIRMAN: Mortgage foreclosures are not very numerous in this Province, and I imagine that is true in most of the provinces. Due to the effect of provincial legislation, the Moratorium, there are relatively few mortgage foreclosures. I do not know about the Province of Quebec, but I would think the same would apply. I would doubt if mortgage foreclosures constitute an important factor in the situation in recent years, because of the Moratorium Acts in force in the different provinces, which prevent the mortgagees from taking action.

MR. WEST: Shall we say it is either the mortgage foreclosures or the anxiety of the owner to get away from his equity, - his commitment as to taxes, which are piling ahead of him. The present system does not make the occupier pay the taxes, as in England, and in consequence, those things hit the market for building materials, and demoralize our price structure at its most vulnerable time.

THE CHAIRMAN: I should think the real estate men would tell us that the turn-over of real estate in a city like Toronto in the past eight years, - that is, residential real estate, - has been relatively small as regards older houses or occupied houses. Of course, there are sales, and sales at a low price. That is a question on which real estate men will give us more light, do you not think, than you could?

MR. WEST: That is quite right. We will agree with that at once, but the only point we really desire to make on that is that it is a very disturbing situation to us to find that through taxes and through mortgage equities which are beyond the control of the ordinary man in the street, - the public, - forces him to undercut us at a bad time. Anything that can be done to minimize that blow, - make provision that taxes must be paid by the occupier, will be a help.

THE CHAIRMAN: There is one point on which I think we would be glad to have light, if some one or more of your members could stay over to give it. That is, how would you propose to change the basis of assessment? That is an important and difficult step.

MR. WEST: I could answer that shortly, in this way, that speaking in the manner of time, if that is a necessity, - it is not the immediate necessity, the immediate necessity as far as we are concerned is relief from the burden of taxes. We fully realize although it is not stated in the brief, that it would take time to change to the British system. We do not pretend to be experts on taxation, we think many other people are better qualified to answer that question than ourselves, but we are convinced that something must be done on that basis otherwise the situation which might be cured, for the time, by relief, will just reoccur.

THE CHAIRMAN: The relief of the burden on real estate is quite distinct from the method of taxation, although the method of taxation might, in itself, operate as a partial relief of the burden. But we had it presented here on Monday by Dr. Brittain that having regard to the difference in the conditions in a new country like Canada and an old settled country like England, - I understood his view to be that there would be great difficulty in applying the English system to the changing conditions in Canadian Cities.

MR. WEST: That might be quite true, Sir, but from our point of view one of the salient features of the British System is the lack of forced sales in bad times, whether through taxation or foreclosure.

THE CHAIRMAN: Of course, it is an important factor. In the English system they do not tax unimproved real estate. I should think that would not be acceptable to the majority of our cities.

MR. WEST: I do not pretend to be familiar with the details but when you say they do not tax unimproved real estate, that is perhaps not entirely true. The safeguards are placed the other way.

COMMISSIONER DAFOE: I asked Dr. Jennings whether, in a popular city, a piece of land which was vacant was subject to taxation. He said that it was not. I do not think you could apply that particular principle to Canadian conditions.

MR. WEST: Of course, diverging here a little bit, if municipalities here, - speaking as an architect of the town planning area, - if the municipalities were properly planned that problem would come very small

THE CHAIRMAN: Of course, we are having a study

made of the whole question of municipal taxation. I thought possibly you had an expert on taxation here who could give us information.

MR. WEST: We are construction men, Sir.

MR. GOFORTH: Mr. Chairman, in consulting with the other members of the delegation, if the Commission would care to have a statement filed we will prepare and file it on that question of changing the basis of taxation, and the feasibility of it.

THE CHAIRMAN: We would be glad to have a statement on it. You mentioned you had a letter from Mr. Macdonald.

MR. ST. LAURENT: The brief will be Exhibit No. 282 and the letter Exhibit No. 283.

MR. WEST: We would like to thank you for the hearing, Sir.

THE CHAIRMAN: We have been very interested. It has been an important brief; you have developed a most interesting and important phase of the question. We thank you for presenting it to us.

MR. WEST: I would like to add that if, in addition, there is any further phase of the situation which you would like us to cover we would be glad to do it.

THE CHAIRMAN: Thank you.

EXHIBIT NO. 282 — Brief presented by National Construction Council and its Constituent Organizations.

EXHIBIT NO. 283 — Memorandum submitted by Robert H. Macdonald, re building societies.

ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

REPORT OF HEARINGS

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REPRESENTATIONS BY CITY OF TORONTO

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REPRESENTATIONS BY PROPERTY OWNERS ASSOCIATION OF TORONTO

H. E. MANNING, K.C. (President)	7159-7212

REPRESENTATIONS BY EAST YORK BUSINESS MEN'S ASSOCIATION

W. F. HAYDOCK (Chairman)	7218-7223
REEVE JOHN WARREN,	7224-7229

REPRESENTATIONS BY THE COUNTY OF YORK & ITS CONSTITUENT MUNICIPALITIES

J. D. LUCAS, (Solicitor)	7230-7240

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ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

TORONTO, ONTARIO, APRIL 28, 1938

The Royal Commission appointed to re-examine the economic and financial basis of Confederation and the distribution of legislative powers in the light of the economic and social developments of the last seventy years, met at the Parliament Buildings, Toronto, Ontario, on Thursday, April 28, 1938, at 10.30 a.m.

PRESENT:

HON. CHIEF JUSTICE NEWTON W. ROWELL....CHAIRMAN

DR. JOSEPH SIROIS	Commissioners
JOHN W. DAFOE, Esq.	
DR. ROBERT ALEXANDER MacKAY	
PROFESSOR HENRY FORBES ANGUS	

Commission Counsel:

Louis S. St. Laurent, K.C.

Secretariat:

Adjutor Savard, Esq.	Acting Secretary
R. M. Fowler, Esq.	Legal Secretary to the Chairman
Wilfrid Eggleston, Esq.	Assistant to the Secretary

FOR THE CITY OF TORONTO:

Mr. R. Day	Mayor

FOR THE PROPERTY OWNERS ASSOCIATION OF TORONTO:

Mr. H. E. Manning	President

FOR THE EAST YORK BUSINESS MEN'S ASSOCIATION:

Mr. Haydock	Representative
Reeve Warren	

FOR THE COUNTY OF YORK AND CONSTITUENT MUNICIPALITIES:

Mr. J. D. Lucas	Representative
Mr. W. W. Gardhouse	Representative
Mr. Robert Ainsworth	Representative

Parliament Buildings,
Toronto, Ontario,
April 28th., 1938.

MORNING SESSION

The Commission resumed at 10.30 A.M.

THE CHAIRMAN: The first brief to be heard this morning is that of the City of Toronto which is to be presented by Mayor Day and the City Solicitor,

SUBMISSION OF THE CITY OF TORONTO

Mr. R. Day, Mayor of Toronto, was called.

MAYOR DAY: Mr. Chairman and members of the Royal Commission: I am here to present this brief this morning, not only on behalf of the City of Toronto, but on behalf of the Ontario Mayors' Association. You will see on the copy of the brief which you have before you a list of the municipalities represented by this Association. It represents most of the larger municipalities and almost all of the cities of this province.

THE CHAIRMAN: We had a brief in Ottawa from the Mayors' Association.

MAYOR DAY: That was from the Canadian Mayors' Association.

THE CHAIRMAN: Yes, and I do not suppose these briefs conflict in any way, do they?

MAYOR DAY: No sir, I do not think they do. I have seen the other brief and the items in this one are not in any way parallel to those contained in the Canadian Mayors' Association Brief. These submissions are the result of deliberations which we have made. I quote from the brief commencing at the top of page 4:

> " While the figures contained in this brief and the Exhibits thereto are, in the main, City of Toronto figures, they apply with, of course, variations of detail, to all the other municipalities mentioned and the contentions made herein are the

the contentions of all the other municipalities as well as Toronto who are in the same way in need of immediate financial assistance to enable them to cope with the ever increasing tax load.

As the Commission have been particularly instructed to "investigate the character and amount of taxes collected from the people of Canada" and 'to examine public expenditures and public debts in general', there has been prepared and is appended hereto a statement (Exhibit I) showing in respect to the City of Toronto, as follows, namely:

On page 1: Statement of population, assessments and tax rates during the period from 1912 to 1937 inclusive;

On page 2: Statement of current expenditure over the same period;

On page 3: Statement of revenue over the same period;

On page 4: Particulars of the gross funded debt of the City over the same period.

also

Exhibit II -- Statement of expenditures for social services between 1922 and 1938. "

THE CHAIRMAN: Mayor Day, may we just look at this schedule exhibit No. I.

MAYOR DAY: The population is shown on the top line, and you will see that during the period shown here the population has increased approximately 50 per cent. The next item shown is that of the assessment, in thousands of dollars. The per capita has practically doubled. In 1912 the per capita assessment was $825.05, while in 1937 it was $1,501.23.

THE CHAIRMAN: That would be very largely due to the

increase in the assessment on real estate, I assume?

MAYOR DAY: Mr. Chairman, the real estate has jumped from $293,488,000 in 1912 to $858,575,000 in 1937. The business assessment during the same period jumped from $38,144,000 to $111,033,000. This assessment, Mr. Chairman, and members of the Commission, is based on the premises used for business purposes, and charged on a percentage basis according to the type of business. Of course, it is a real estate tax. In the same period, you will note that the income tax assessment was $12,619,000 in 1912 and it dropped to $3,650,000 in 1937. The income assessment reached its peak in 1930 when it was $74,509,000.

THE CHAIRMAN: I thought it was entirely abolished?

MAYOR DAY: No, not for corporation taxes; the personal tax was taken away but there was some question as to how long we would be able to collect corporation taxes and that was left with us. The next item is that of the assessment for general purposes which is somewhat different, but it is fundamentally the same.

THE CHAIRMAN: Why is there the difference for general purposes?

MAYOR DAY: Because in the city of Toronto we exempt from general taxation houses up to a value of $4,000.00, in varying percentages. However, this exemption does not apply for school purposes, it is just on the general rate. You will note that in the first few columns the figures are given for five year periods, that is up until 1927. The increase of 1917 over 1912 was approximately 70 per cent. In the next five year period the increase was approximately 23 per cent, and in the following five year period the increase was 16 per cent. In 1928 there was an increase of 1½ per cent; in 1929 an increase of 5.12 per cent; in 1930 there was an increase of approximately 5 per cent -- I am

just making these figures approximate, as you see. In 1931 the increase was 3.77 per cent; in 1932 1.28 per cent; in 1933 there was a decrease of 1.19 per cent; in 1934 the decrease was 2.29 per cent. Coming to 1935, we see there was a decrease of .80 per cent; in 1936 the decrease was 4.39 per cent and in 1937 the decrease was .45 per cent; in 1938 the City had a still further decrease.

THE CHAIRMAN: Do these other schedules refer to the same matter or do they come in later on in the brief?

MAYOR DAY: They come in in connection with further points in the brief.

Now, in Exhibit No. 2, that is the very last page of our brief, there is a statement of expenditure for social services between the years 1922 and 1938. Quoting now from the brief:

> " This statement commences with the year 1912 so that some idea may be had of the financial position of the City prior to the Great War --"

I am sorry, I think I read that before, so I will continue with the next paragraph.

> " To what extent motor powered highway traffic has increased during this period may be illustrated by the following three tables in which motor vehicle registrations in 1936 are compared with those in 1916."

I will not bother to read the figures, but you will note that there has been a tremendous jump in the registration of motor vehicles. In 1916 there were 9,994 passenger cars registered in the City of Toronto, and in 1936, 113,147. In Ontario, excluding Toronto, in 1916 there were 40,330 passenger cars registered and in 1936 there were 400,064. The total registration of motor vehicles in Ontario, excluding Toronto, in 1936, was 454,074.

There was an increase in Toronto of ten times, almost eleven times, and in Ontario, excluding Toronto, of ten times the figure of 1916. The table also shows the increase in 1936 of commercial vehicles registered within the city of Toronto and outside the city of Toronto. There is a tremendous increase of commercial vehicles registered within the city of Toronto and a still larger increase for the whole of Ontario.

Returning to the brief, I quote:

" During the period covered by the statement, this City has been compelled by the increasing requirements of motor traffic to expend many millions of dollars in providing new highways, widening and paving existing highways, separating grades of highways from railways by means of bridges and subways, regulating traffic by various devices, and also to maintain its highways to a standard theretofore unknown. The expenditure of such sums has not only increased the city's annual current expenditures, but in many cases has contributed largely to an increase in its funded debt. Approximately 23 per cent. of the existing debt of the City (excluding debt for self-sustaining services) is the result of such expenditure.

And still the necessity exists for further new highways, more widening of existing highways, more grade separation, more traffic signals, and further improvements of pavements, etc. Many sudh works which should have been undertaken before now have not been undertaken simply because of lack of funds. Such works of highway improvement are, it may be argued, primarily within the jurisdiction of the municipality, and the municipal tax-

payers must therefore bear large portions of their cost. While therefore, this City is now seeking to disclaim responsibility for works of highway improvement within its boundaries, the fact that it has such a large and increasing responsibility should, it is submitted, be considered as one reason why municipalities should be relieved of other expenditures not so clearly chargeable to them."

COMMISSIONER ANGUS: Under highways, are you including streets and so on?

MAYOR DAY: Yes, we are, but so far as parts of provincial highways within our own borders are concerned, it is our opinion that that is of a different character than ordinary residential streets.

COMMISSIONER ANGUS: Those figures include both, do they?

MAYOR DAY: Yes, they do.

Quoting from the brief under the heading, "Sources of Revenue", I read:

As shown by the said statement, thentotal revenue of the City of Toronto for the year 1937 was $35,972,166, the source of which was as follows:

Real Estate (including business taxes	$32,880,482	91.41%
Provincial subsidy	902,700	2.51%
Other sources including licenses and things of that nature	2,188,984	6.08%
Total	$ 35,972,166	100.00%

THE CHAIRMAN: The provincial subsidy is one mill on the dollar, is it not?

MAYOR DAY: Yes, Mr. Chairman, it is one mill on the dollar for the general assessment. This is the figure for 1937 when the provincial government took over the income tax

We received back, the first year, about $1,307,000. The government subsequently relieved the city of some social services and gave the city a subsidy of one mill which amounted to this amount. This year, by reason of the decreased assessment the amount has fallen to $898,000.

THE CHAIRMAN: What was your income from the income tax or what would your income have been on the same assessment?

MAYOR DAY: I think that is found on page 29, No. 4.

THE CHAIRMAN: If you are coming to it later in the brief, I do not want to interrupt you.

MAYOR DAY: Looking at the schedule on page 29, under the year 1931, the income is listed as $2,375,000.

THE CHAIRMAN: What was it in 1935?

MAYOR DAY: It was $1,395,000, that was practically the lowest year. 1935 was the lowest, even going right back to 1917 and it was certainly the lowest before 1922, at least.

THE CHAIRMAN: I was wondering what the amount would have been on the basis of this year's assessment?

MAYOR DAY: We are unable to ascertain that, for this reason, it is an income tax on personal incomes. We can tell in a very general way from the figures in the hands of the Dominion Government for the Toronto District, but the City of Toronto is not separated from that Toronto District figure. It is for this reason that we could only give an approximate amount. You will note here, Mr. Chairman, that real estate forms 91.41 per cent of the total revenue and the provincial subsidy only 2.51 per cent, the remainder coming from other sources.

COMMISSIONER MACKAY: What is included in that item, "Other Sources"?

MAYOR DAY: The revenue from licenses, court fines and

things of that nature. There are licenses for different types of business receiving special services. This information is contained on page 32 of the general notes, sir. You will see there under the heading of "Miscellaneous Revenues", the following sources are listed:

"Court Fines and Fees, Government and County Share of expenditure re Courts and Industrial Farms, General Licenses, General Rentals from City Property, etc., Tax Percentages in excess of Discounts, Street Area Rentals, Beverage Rooms (City's Share from Provincial Government), Sundry Departmental Revenues, etc."

THE CHAIRMAN: You do not get any profit in Toronto from public utilities, do you?

MAYOR DAY: No, they are not even taxed.

THE CHAIRMAN: I am speaking of city utilities. The water, light and railway are all run on the basis of cost?

MAYOR DAY: Yes, and the hydro the same.

COMMISSIONER MACKAY: Where do those utilities come in, are they included in your total income?

MAYOR DAY: No, the only reference to them is in the gross funded debt.

COMMISSIONER MACKAY: You say the total income is $35,000,000, does that include the water rate?

MAYOR DAY: Yes, it does, only the net result as it changes our tax rate. The approximate cost is charged for water and the surplus or deficit is made up in the general rate. It is a fact, that in connection with the waterworks there has never been anything charged for depreciation or amortization or replacement. Nothing of that nature has been charged. There is now in the course of completion what is generally referred to as a duplicate water system. This will be completed about one year from now at a cost of

about $16,000,000; of that amount about $14,000,000 has already been funded.

COMMISSIONER SIROIS: Mr. Mayor, on page 29 under the heading of 1936, you have listed $1,207,000 as a provincial reimbursement. That is, a reimbursement by the provincial government owing to the abolition of the municipal income tax. For that purpose the government took the 1935 figures, I suppose?

MAYOR DAY: That is correct.

COMMISSIONER SIROIS: You have, in 1937, $902,700 which is a subsidy, but what kind of subsidy is it?

MAYOR DAY: In 1936 the provincial government reimbursed the actual number of dollars we would have recieved from our income tax. The following year the government took over the city's share of the Mothers' Allowance and Old Age Pensions and gave the city, in addition, a sum equal to one mill on the general rate. This did not fully reimburse the city, but the government did give the city this one mill on the assessment.

Quoting now from page 6 of the brief,

> " As will be seen on page 1 of the said statement, the tax rate of the City has tended to increase annually from 18.5 mills in 1912 to 35.7 mills in 1937."

This year, 1938, is again increased to 36.05, that is not in here. Continuing to quote,

> "The increase in rate since 1932 has been to a considerable extent caused by a decline in the assessment largely brought about by the high taxes which result in decreased values of property."

Now, at the bottom of page 6 there is a table, Mr. Chairman, giving a comparison of the tax rates of 1911 and 1937. You will note that for education in 1911 the rate was

6.3 mills. And in 1937 the rate was 11.4 mills. In that item there is an increase of 5.1 mills, and there is a still further increase this year. The social services, in 1911, cost the city .7 or seven-tenths of one mill, whereas, last year the cost was 5.4 mills, an increase of 4.7. For protection in 1911 the rate was 2.7, in 1937 5.1; this made an increase of 2.4. Health and sanitation; in 1911 the cost was 2.5 mills and in 1937 3.8 mills. The resultant increase was 1.3 mills. Under the heading of "Highways", we find the rate in 1911 given as 1.6, and in 1937, 2.5. This gives a small increase of .9 mills. For local improvements, the city's share, in 1911, was .2 mills, and in 1937 2.2 mills. There is an increase here of 2 mills. If that is carried out into percentages, it shows a tremendous increase, which has been brought about by the fact that the highways, as they are built today, are built for highway purposes. These roadways are not built for those people who live on these streets, a larger and larger part of it has been borne by the general rate.

THE CHAIRMAN: You cannot properly charge the property owners on either side of the street the additional cost necessary to put in a permanent highway for through motor traffic.

MAYOR DAY: That is correct, and a very large number of residential streets are used for through traffic purposes. It is for that reason that the percentage has increased so tremendously. The cost of special services, deficits, increased 1.5 mills. In that connection, an important item would be the harbour. This is built as a joint city and Dominion work. The deficits for the harbour are here in the schedule and have been running over a million dollars. Last year we were able to refund this at a profit the outstanding bonds.

(Page 7112 follows)

MAYOR DAY: The City is a guarantor unconditionally for those bonds, but the harbor, together with the exhibitions, make up most of that $1,500,000 by deficits. The parks have increased only from one to one and one-half during that same period. Administration, on the other hand, has decreased from 1.5 mills to 1.3, even though our population has increased 50% in the same time. Unclassified amounts have dropped, as you see.

THE CHAIRMAN: The big increases are in education and social service?

MAYOR DAY: Yes, that is right.

THE CHAIRMAN: Why should the protection increase so much? It is almost double.

MAYOR DAY: Well, largely on account of motor car traffic. I would hazard a guess that at least 50% of the time of our police is taken up with the management and infraction of regulations by drivers of motor vehicles. That, more than anything else, I would say. It is largely through the tremendous increase in the number of motor cars. We have policemen doing nothing else but taking care of motor car traffic, a very large number of them. Then the traffic signals on the streets, those are chargeable to protection. All of those things have tended to increase that amount, but it is all on account of motor cars.

COMMISSIONER ANGUS: In education, your school population has increased a great deal.

MAYOR DAY: Yes, but it has not increased to anything like the same extent. I will come to that later.

COMMISSIONER ANGUS: What is the increase?

MAYOR DAY: From 68 to about 110. But that increase, if I may say, is due to changes brought about in this Chamber. We have had to keep children in school until they are sixteen years of age. We have had to provide by an Act brought in primarily by the Federal Government for technical

school education. The Government pays for a certain number of years and then withdraws, and the burden of the whole cost then falls on this municipality. They do not cut the cost by withdrawing, they simply shift the burden on someone else's shoulder.

COMMISSIONER ANGUS: The population has increased 50%?

MAYOR DAY: Yes, it has, and the school rate has almost trebled.

> "Page 2 of the statement, Exhibit 1, which deals with expenditures shows year by year the amounts spent by the City for its general services and for a number of other services in respect to which the City contends that the whole, or at least part, is not properly a municipal obligation and should not be chargeable to real estate."

Mr. Chairman, and Gentlemen, the figures for ordinary services; General Municipal in 1912, $5,256,540; in 1917, $9,098,830; in 1922, $13,464,977; in 1927, $15,467,407; in 1928, $16,025,381; in 1929, $17,026,186; in 1930, $18,114,621; in 1931, $19,910,982; in 1932, $18,842,298; in 1933, $17,360,354; in 1934, $17,191,733; in 1935, $16,902,279; in 1936, $16,728,085; in 1937, $17,194,874; and in 1938 it is $17,140,000. I read those figures to show that with the tremendous increase in relief that we have had to cut down the general municipal service to take care of that other uncontrollable expense. That line, in effect, is the only controllable part of our budget. Underneath, (b) Health Service, is shown to be cut below 1931. The Libraries, a matter over which we have only partial control, - we have control of expenditures over 50¢ per capita only. The amount for highways outside the City is shown there.

THE CHAIRMAN: What is that item, highways outside the City?

MAYOR DAY: It is dealt with later in the brief, Mr.

Chairman. Then primary education, that is dealt with later in the brief, and also the secondary education. Social Services, Doctor Dafoe, that is shown under (h), Statutory Obligations, the effect of the Government's action in taking over, in 1937, some of our statutory obligations, - Old Age Pensions and Mothers' Allowance, - it dropped from $2,375,340 to $1,785,788, as shown in the columns on the right hand side of the page.

THE CHAIRMAN: In regard to direct unemployment relief, this is the amount that is carried into the tax rate, is it?

MAYOR DAY: Yes, that is right.

THE CHAIRMAN: It does not cover the funded portion of the debt?

MAYOR DAY: No Sir, but in connection with that, you will note that in 1928 it was one-fifth of a mill, the same the next year, .18, .16, .14, in 1930 it is .40, 1931 .87, in 1932 .75, in 1933 only .01, the following year .69, then 1.47 in 1935, 2.63 in 1936, 3.26 in 1937, and in 1938 it is 4 mills.

THE CHAIRMAN: Is that due to your paying out of current revenues a larger percentage of relief, or is it due to the increased interest on the funded debt for relief?

MAYOR DAY: Both, Mr. Chairman. Would you like me to explain it in detail?

THE CHAIRMAN: No.

MAYOR DAY: It is both, in 1937 no relief was put in the tax rate, not even the administration costs.

THE CHAIRMAN: What is the total funded debt for relief?

MAYOR DAY: It is $7,478,000. That is on page 30, in our statement of the funded indebtedness.

Then services not municipal obligations, dealing with the schedule we have just looked at:

"These services which will be hereinafter dealt with seriatum are Health Services, Libraries, Highways outside the City, Highways within the City, Education, Social Services (including Hospitalization of indigents in Hospitals and Sanatoria, and Children's Protection) and Direct Unemployment Relief.

Health Services

The activities of the Department of Health in the control of communicable diseases, medical supervision of school children, the sanitary condition of premises and the advancement of health teaching in general cannot be dissociated one from another, and all form an important contribution towards the improvement of the health standard and health attitude of citizens at large. An improvement in the health standard and health concept of the citizens of Toronto forming as they do approximately one-fifth of the total provincial population cannot help but be interpreted as a definite contribution to the virility of the nation as a whole, and therefore substantial assistance toward the monetary expenditures involved in such health effort should be made by governmental authority in relief of the municipal taxpayer.

The very rapid increase in motor transportation in the last twenty years or so has removed the isolation of municipalities permitting the city dweller to more frequently contact city environment. In this movement of citizens, there is inevitably a concurrent movement of infections. In safeguarding its citizens from infectious conditions and in building up their general health, a large city directly safe-guards the sojourner in its

"midst as well as those with whom the city dweller comes in contact when away from home. The general standard of a city's population becomes, therefore, in these premises, an asset or a liability and as such of importance to the citizens as a whole beyond its immediate corporate border.

As the health activities of this City cannot be satisfactorily dissociated one from another, it is suggested that a definite annual government contribution based on the actual expenditure for health purposes should be made to this City.

The City of Toronto operates as well a hospital for those suffering from communicable diseases known as the Riverdale Isolation Hospital. This Hospital has not been placed in the same category as public hospitals so as to receive the benefit of government grants on a per diem basis. The activities of this hospital are perhaps more important and of greater benefit to the public at large than the services provided by general hospitals and it is therefore suggested that the making of the usual grant of 60 cents per diem for public ward patients is by no means unreasonable."

THE CHAIRMAN: Why is it that the Riverdale Isolation Hospital is not on the same basis as the others?

MAYOR DAY: Well, the Provincial Government says it is an isolation hospital, and that they contribute to general hospitals. The Provincial Government has always maintained that this is not a general hospital, it is an isolation hospital, and their grants cover only general hospitals, and we have been excluded from those grants.

THE CHAIRMAN: And they are not authorized to make contributions under the grant?

MAYOR DAY: That is right.

"The annual expenditure in respect to public libraries is a service which the City submits might well be considered as an item of secondary education, which is dealt with hereinafter.

Highways outside the City:

The City of Toronto, in addition to its own work of highway improvement within the City limits, has for many years been compelled to contribute towards the construction and maintenance of highways outside the limits of the municipality. The total of such contributions is nearly six millions of dollars, which has materially added to both the funded debt and the annual current expenditure of the corporation. The actual amount so spent by the City on highways outside its limits to December 31st, 1936, was:"

On the next page are these figures; for County Suburban Roads, known as the Toronto and York Roads Commission, a total of $3,208,978.26, and for King's Highways, $2,625,506.30, a total of $5,834,484,56.

THE CHAIRMAN: The first item County Suburban Roads, refers to county roads, and the second, provincial highways?

MAYOR DAY: Yes.

"The expenditure in respect to King's Highways was discontinued as of March 31, 1935, from which date municipalities throughout the province were relieved of direct contribution to King's Highways. The City's liability to contribute to County Suburban Roads, however, still continues."

I might say that the City of Toronto presents this brief on behalf of these other municipalities as well. There are thirteen such boards within the province, - thirteen other cities have to follow the same regulations as cited here.

"Such expenditure commenced in 1911 when the City of Toronto and the County of York under the authority of legislation secured in the previous year entered into an agreement providing for the creation of a joint commission to undertake the work of constructing and improving certain roads set out in the schedule to the agreement, comprising a total mileage of 113.75 miles, the expenditure contemplated being limited to $300,000 payable by the County of York, the City of Toronto and the Province of Ontario to the amount of $100,000 each.

In 1915 by the enactment of the Ontario Highways Act, the agreement between the City and the County of York was in effect annulled and the City was required to provide annually or from time to time an amount equal to that appropriated by the council of the county for the construction and maintenance of suburban roads. Statutory revision of the contributions payable by the municipalities and the government on account of construction and maintenance of suburban roads has been made from time to time and the proportions now obtaining are

Province of Ontario ..... 50 per cent.
County of York ..... 25 per cent.
City of Toronto ..... 25 per cent."

I do not think I need read section 17 of the Highway Improvement Act.

"Study of Section 17 quoted above, demonstrates that of the three contributing parties, the City of Toronto only, is not given a voice in the programme adopted yearly for improvements. The County determines by by-law the works and expenditure proposed, the Minister of Highways is vested

"with power of approval, and in the absence of such approval, Governmental contribution is withheld, while the City is bound by mandatory legislation, to abide by the determination of the other two contributors as shown by Section 38 and part of Section 39 of the Highway Improvement Act. This is eminently unfair and discriminatory. Although these suburban highways are situated wholly within the County of York, the City at the behest of the County and the Minister of Highways for the Province, is compelled to pay its quota of 25 per cent. of the cost of construction and maintenance and is denied opportunity to participate in framing the programme.

While the Ontario Statute (Section 8-Chap. 135) of 1910 and the agreement made between the County of York and the City of Toronto pursuant thereto, limited the obligation of the City by way of contribution, to a radius of twenty miles outside the City, the Highway Improvement Act abolished such limitation. In consequence, Toronto has been compelled to participate in highway expenditures far beyond the twenty-mile radius originally prescribed, the maximum radius now obtaining being approximately 41 miles as represented by Highway No. 12--known as the Sutton Road, which terminates on the division line between the Counties of York and Ontario, at a location approximately 1½ miles south of Lake Simcoe, which is removed about 51 road miles from the northerly City limits. (63 or 64 miles from the City Hall) In actual mileage the County Suburban Roads to which the City contributes have increased to 247,92 instead of the 113.75 as originally contemplated in 1911, an increase of

"117.9 per cent.

When the original agreement of 1911 between the City and the County was negotiated, the motor propelled vehicle was not a significant consideration in highway travel nor was it then anticipated that it would attain the position of dominance which it now occupies. The following is a statement of Ontario motor vehicle registrations for the years 1910, 1916 and 1936 respectively:"

It will be noted in 1910 there were no Toronto registrations, they were bulked, Ontario as a whole, 1977; in 1916, in Toronto, 11, 163; in Ontario outside of Toronto, 41,627; in 1936, 130,830 in Toronto and 454,074 in the Province.

"The foregoing table forcibly illustrates the tremendous and unforeseen growth of the use of motor vehicles in the period indicated. In the year 1910 there were but 1,977 such in the Province of Ontario and the number of foreign cars registered for entry exceeded by 276 the number of Ontario native permits.

The increase during the years intervening has been phenomenal. It created a demand for additional and wider highways of more permanent construction, to which the Government and municipality responded. This response entailed heavy financial outlay. For highway improvements within its corporate limits, the ratepayers of Toronto paid the whole cost; for those situated without its confines the taxpayers of the City were compelled by Provincial legislative enactment to pay in the quantum and over the area determined by the provisions of such legislation. The municipality's only source of revenue to meet outlay in this behalf is the ratepayer, upon whom it

"was imposed by tax levy.

The Government of Ontario quickly discerned that this new form of transportation, demanding colossal expenditure for its needs, should be directly taxed to provide funds to meet Governmental outlay on highway construction. Exercising its sovereign authority, the Government increased motor license fees and instituted a gasoline tax payable by the owners of motor vehicles, which reimburses it for Governmental expenditure on highway account.

The total Revenue and net Expenditure, respectively, on account of the Department of Highways for the year ended March 31st, 1937, as shown by the Public Accounts of the Province was as follows:"

On ordinary account the revenue was $26,976,444.23; the net expenditure $4,931,306.65; on capital account the revenue was $1,198,973.85; and the net expenditure, $6,040,721.31. A total revenue of over $28,000.000 against a net expenditure of approximately $11,000.000, showing a balance of $17,203,390.12.

THE CHAIRMAN: Mayor Day, what is the difference between the revenue on ordinary and capital account? What is the distinguishing feature? Are these revenues from gasoline taxes and motor licenses?

MAYOR DAY: Yes, that is the revenue according to the provincial government's blue book. These figures are taken therefrom, and we have no further information than that, Mr. Chairman.

THE CHAIRMAN: For the moment I do not quite see, if it is revenue from motor licenses and gasoline tax, why it should be divided between ordinary account and capital account.

MAYOR DAY: I confess I do not either, but this is as set out in the government's blue book, and I am bound to

convey them as I found them, Sir. But it does show a net difference of $17,203,000, using the government's figures.

"Of the net expenditure, $1,934,474.28 represents Provincial subsidies to County Roads, of which the County of York received $218,449.31 which includes Governmental contribution to County Suburban Roads administered by the joint Commission.

By medium of the gasoline tax, the Government annually secures from motorists visiting Ontario, a considerable sum which cannot be segregated in annual returns.

For the fiscal year ended 31st March, 1937, the Province collected the following amounts from users of motor vehicles by way of levy for gasoline tax, licenses, fees and fines, - ". The total there is $26,665,042.

THE CHAIRMAN: Why the difference between that figure and the figure of $26,976,444.23, revenue on ordinary account, on page 11?

MAYOR DAY: Would you mind if I go back to that later, Mr. Chairman? I think there is an error in the brief. I think this amount here is the amount only from gasoline tax and motor licenses, and the difference is from fees and fines.

THE CHAIRMAN: That may be it, yes.

MAYOR DAY: To continue reading from the brief:

"Were it possible to determine the quantum of gasoline tax revenue derived from motorists hailing from without the Province, the average revenue value per Ontario registration might be readily derived. Failing this, it is helpful to calculate the average revenue value for the year 1936 on account of gasoline tax, licenses, fees and fines quoted in the paragraph immediately preceding. The revenue from

"these sources was $26,665,042, which divided by 584,904--the number of Ontario registrations, produces an average revenue value of $45.58 per registration.

The number of Toronto registrations for 1936 was 130,830 which rated at the unit revenue value of $45.58 for comparative purposes would produce $5,963,231, an amount equivalent to 54.6% of the entire expenditure of the Department of Highways on Ordinary and Capital accounts for the year ended 31st March, 1937.

It is apparent that several County Suburban Roads are so located and constructed as to operate as parallel or relief highways to The King's Highway, thus relieving the Province of immediate added expenditure for expansion of The King's Highway system.

Toronto ratepayers contribute annually:

A. To the Government of Ontario

(1) License fees

(2) Gasoline tax

B. To the County of York through the City of Toronto.

Twenty-five per cent of the construction and maintenance costs of York County Suburban Roads.

C. To the City of Toronto

Taxation for entire cost of highway improvement and maintenance within the City limits.

All Ontario motor registrants pay to the Provincial Government annual license fees and a gallonage tax on gasoline purchased. Motorists from outside the Province pay gasoline tax only.

The Government in part applies the moneys produced by the aforesaid levies to:

a. The construction and maintenance of The King's

"Highway system,

b. The construction and maintenance of County roads, including such as are declared County Suburban,

c. The construction and maintenance of Township roads, as described and provided in The Highway Improvement Act.

The contribution of the Government to expenditure on County roads is equivalent to 50 per cent. of the amount of such expenditure or such other proportion as may be authorized by the Act last mentioned, or any other Statute; to County suburban roads 50 per cent., and to Township roads from 40 per cent. to 80 per cent. of Township funds expended thereon.

The foregoing analysis demonstrates that Toronto motor owner ratepayers pay:

A. Contribution by way of license fees and gasoline tax to: -

(1) The construction and maintenance of The King's Highway System.

(2) The construction and maintenance of County Roads including such as are declared County suburban,

(3) The construction and maintenance of Township roads.

B. Contribution to the County of York through City of Toronto taxation:

Proportion of twenty-five per cent. of the construction and maintenance costs of York County Suburban Roads.

C. Proportion of highway improvement and maintenance charges within the City limits, the whole cost of which is borne by the City of Toronto.

It must also be borne in mind that those resident outside Toronto, and transients, do not con-

"tribute to highway improvement or maintenance within the City, but all motorists, native (including citizens of Toronto) and foreign, contribute to construction and maintenance costs of:

The King's Highway System.

County Roads.

Township Roads."

(page 7128 follows)

"Highways within the City

The City of Toronto has expended millions of dollars for extension, widening and grade separation of thoroughfares within its limits which constitute links or prolongations of the great main highways which touch its borders. Kingston Road, Fleet Street, Danforth Avenue, Bloor Street, Yonge Street and Bathurst Street may be cited as examples. These great links through the City are essential to the proper movement of traffic originating outside the Municipality, yet the Corporation as a whole and the local ratepayers in particular have been called upon to make immense expenditures thereon without receiving any monetary aid.

The Municipality contends that in equity it is entitled to secure a reasonable contribution thereto from the Government of the Province of Ontario which derives relatively colossal revenues from motor licenses and gasoline tax".

THE CHAIRMAN: I suppose you have taken these problems up with the government of the Province?

MAYOR DAY: Many and oft-times, sir.

COMMISSIONER MacKAY: Do you know of any province in Canada that does compensate cities or does contribute to the maintenance of through roads in the cities?

MAYOR DAY: No, I do not. And I do not know of any other municipality that has to contribute to roads outside the city either, and we have done that to the extent of some six million dollars. Certainly in the smaller municipalities the Government pays the road cost there, and up to as much as 80% in these other municipalities, but none to us here. And they come into the city and because a person happens to have a garage on a road which is a provincial highway or a King's Highway, and is marked by

signs along that highway, they come and collect the provincial tax because that person happens to be on a King's Highway.

COMMISSIONER MacKAY. But do they contribute to through highways in any city in Ontario?

MAYOR DAY: Not that I know of. I do not think so. As I pointed out there are thirteen other cities in the same position as Toronto in connection with these suburban roads.

To pass to education: "A comparative statement of annual expenditures on education during the 20-year period, 1918-1937 inclusive and showing the amounts received from the Provincial Government in grants in each of the said years, is as follows:"

It is quite a long list. In 1918 the gross expenditure was $4,149,415.65, and in 1937, $11,390,859.00. The amount received in Provincial grants in 1918 $99,140.10 and for the year 1937 $507,814.67. You will note the small percentage there, 4.5% only coming from the Provincial Government for education in Toronto.

THE CHAIRMAN: We had this question raised, I think, by the cities, municipalities, in all the provinces where we have held sittings; but my impression is that the percentage contributed by the Government as shown in this table is smaller than we have found anywhere else.

MAYOR DAY: I think you are right. So far you are right, at any rate. I know the provinces you have been in. They could only be smaller in the province of Quebec. And it is interesting, Mr.Chairman, to note that this Ontario Government has passed an item of $1,200,000 this year at their last session to increase educational grants. Of that $1,200,000 it is estimated the city of Toronto is to receive $50,000, one-twenty-fourth.

THE CHAIRMAN: That would improve your position slightly.

MAYOR DAY: It would improve our percentage slightly but I do not think it will improve the percentage of contribution to the city as related to other municipalities throughout the province, and I think all the cities are in the same position as we are. Something might be said there on the basis of where revenue is derived and where it is expended.

Now, the comparative enrolment:

	1918	1937
Public Schools	65,428	80,816
Secondary Schools	5,350	22,895
	70,778	103,711

COMMISSIONER MacKAY: The proportion of your school population for lower schools, in proportion to total population of the city, is declining, evidently?

MAYOR DAY: No, I would not say that.

COMMISSIONER MacKAY: I mean the population of the city increased at least 50% during the period.

MAYOR DAY: Not since 1918.

COMMISSIONER MacKAY: Oh, I beg your pardon.

THE CHAIRMAN: The figures are not here.

MAYOR DAY: They are not. If you would like to have them --

COMMISSIONER MacKAY: No, it is not important.

MAYOR DAY: It is not important, but you can see it was approximately 500,000 in 1918 against 600,000 now.

COMMISSIONER MacKAY: Yes, I was taking the wrong figure.

MAYOR DAY: Yes.

"In their educational standard our schools have moved far away from the old Three R's idea, from the little red school house, and even from the more modern ideas prevailing before the War. Year by year

new courses have been added, but not with the approval or consent of the taxpayers who must bear the burden. True, both provincial and federal governments have made contributions towards the cost of education but their grants vary from time to time and may at any time be withdrawn while the particular services for which they are made, once established, must be continued - at the cost of the City.

Some of the special types of education given by the Board of Education in Toronto are as follows:

Kindergarten Classes
Manual Training Classes
Household Science Classes
Orthopaedic Classes
Visiting Teachers
Museum Classes
Art Gallery Classes
High Park Forest School (That is for children threatened with T.B.)
Open Air School
Supervised Playgrounds
Vacation Schools
Swimming Classes
Hard of Hearing Classes
Sight Saving Classes.

In addition to the activities mentioned above are the evening schools for adults and youths. The budget for the Board of Education in Toronto, with respect to the percentage of the total City budget for the last ten years, is as follows : "

You will note that in 1928 it was 31%, 1929, 32.49 1932, it was 30.55, 1935 it had come up to approximately 31% and in 1938 it is 32.38% or approximately one third.

"It might be argued with considerable force that the whole cost of education should be borne by the state and none of it made directly a tax on real property. This is particularly in view of the fact that the state, that is, the Province of Ontario, fixes the standard of education required, compels the attendance of pupils, etc., and the taxpayer

has no voice in saying what shall be expended. But without going to that extreme, it is submitted that at least in respect of secondary education the expenditure does not in any way benefit real estate and should not be borne by the taxpayer".

THE CHAIRMAN: Mayor Day, is that entirely correct? Does not the fact that you have a good educational system here in Toronto add to the attractiveness of the city and make it a desirable place in which to reside?

MAYOR DAY: It may, but we do submit that primary education is of a definite and real value as far as the property owner is concerned but above that standard that it is a type of education which, desirable though it is, and perhaps necessary, - certainly necessary in a great many instances, - that that does not add anything to the value of that person because he is not a citizen of the city of Toronto, he is a citizen of the whole Dominion and the education that we pay for here does not reflect to the benefit of those who have paid for it at all, but rather reflects to him as a citizen of the country as a whole. For that reason we submit we should not have to pay for it.

"The State does, of course, make contributions to the cost of education in Ontario but not, it is submitted, to the full extent of its responsibility.

The following shows the average financial aid contributed towards education by governments in respective provinces and states."

In Ontario the grants average 11.5%, Quebec 6.4%.

THE CHAIRMAN: That is 11.5 for the whole province?

MAYOR DAY: Yes.

THE CHAIRMAN: But so far as the City of Toronto is concerned it would be 4.5?

MAYOR DAY: Yes. But you will see, Mr.Chairman and members, how very greatly these percentages do vary and that is why I was going to impose upon you by reading them, but I need not, you have it before you. 11.5 in Ontario, British Columbia 32.9, Prince Edward Island 59.1, the British Isles 50 to 56%, South Africa 75 to 90%, and the States varying percentages up to 90%, but always a great deal higher than we have here.

THE CHAIRMAN: Of course, Mayor Day, there is a difference between British Columbia, Prince Edward Island and some of the other provinces, and this province, in that a very substantial percentage of the population reside in areas that are not in municipal boundaries or school districts, where the province contributes practically the entire cost, at least a very large percentage. They have not the same municipal organization in these provinces as we have in the other provinces.

MAYOR DAY: But whereas that may be true of the nine provinces of Canada it is not true of these other states that I am going to mention in a moment.

In this next paragraph you will see that we have included in our grants this amount that we are to receive, this $50,000 from the Provincial Government this year.

> "It should be pointed out that the average percentage of government grants for Ontario is not indicative of what the percentage is to the total expenditures of the Board of Education in the City of Toronto. Government grants for the City of Toronto for 1938 will only equal 4.8%.....

That includes that new grant passed this year.

> ... "of the total expenditures of the Board. It will be noticed that the financial aid contributed

by the Ontario government is considerably less than the percentage of all the above provinces and countries noted. This means that the real property and business tax carries the balance of the educational costs.

The following table serves to illustrate how central governments in other countries contribute to educational costs:

Percentage of Educational Costs borne by Central Government:

England and Wales	52%
Scotland	57%
North Ireland	82%
Union of South Africa ...	75%
Australia	100%"

COMMISSIONER DAFOE: Those are the States of Australia, not the Commonwealth?

MAYOR DAY: Well, that is true, but it is borne by a Central Government of one type or another, Dr. Dafoe.

THE CHAIRMAN: It is borne, you mean, by a central government as opposed to the municipalities?

MAYOR DAY: Yes.

COMMISSIONER DAFOE: It is universal in Australia, but it is the states individually that accept the 100% responsibility. They may get it from the Commonwealth, I do not know about that.

MAYOR DAY: Yes, but they are sovereign states, the same as Ontario.

COMMISSIONER DAFOE: Yes, but it is simply I thought it would be more accurate if it was made clear that it was not the Commonwealth but it was the states of Australia, just as we have the provinces in Canada.

MAYOR DAY:	"Sweden	62%
	Norway	56%
	France	77%
	United States (All States considered)	19.5%"

THE CHAIRMAN: Where do you get the information as to the United States, all States considered?

MAYOR DAY: We got the statements by simply getting the information from the different states and compiling them. As far as the other places are concerned we got them from the British Educational Society.

THE CHAIRMAN: Thank you.

COMMISSIONER ANGUS: Mayor Day, before we pass from that point, we have heard a good deal from Teachers Federations and so on, rather complaining that the schools are not nearly as good in rural areas as in big cities, as indeed one would expect.

MAYOR DAY: Yes.

COMMISSIONER ANGUS: Do you think that if the provinces contributed the greater portion of the cost of education that the cities would have, relatively, as good schools as they now have? Would not you expect educational advantages to be much more equalized?

MAYOR DAY: I do not think our schools would be any less efficient or that the children would not be as well housed. But I do think that there is a great deal to be said, especially for teachers in rural areas, to compare their positions with teachers in cities, shows a great difference.

COMMISSIONER ANGUS: I will put it this way: Do not the cities to some extent pay higher salaries to secure better teachers, and would not they wish to do that even at the expense of their own citizens?

MAYOR DAY: That is a matter over which the city council has no control whatsoever, and the constantly rising costs of education, as I will show, forces our tax rate continually up. If the government takes care of everything, and their grants are predicated on the type of school that we build, and whether they have a window here

or there, and they set down the curriculum, they have their inspectors coming in, they set the standard for the teachers, they have the school for the teachers, then why should not they say what the teachers' salaries shall be, and equalize them to some extent according to the capacity of the teachers throughout the province? I do not think there is any reason why the teachers, or the standard in Toronto, should be different to that in the township of York, where you cannot tell where you leave the city and enter the township.

COMMISSIONER ANGUS: I was merely asking in one way or another this question: Would the citizens be willing to forgo the power they have at present of having better schools, if they themselves pay more for them?

MAYOR DAY: Well, that is a bit of a poser, Professor Angus.

COMMISSIONER ANGUS: Does it not go to the root of this question of whether the province or the city should pay the greater proportion of the cost of education?

MAYOR DAY: We have no control over the schools. We have no control whatsoever.

THE CHAIRMAN: You mean the city council has no control?

MAYOR DAY: Yes.

COMMISSIONER DAFOE: The school board has?

THE CHAIRMAN: The school board, which is elected by the citizens, has a large measure of control.

MAYOR DAY: No, I beg to differ with that, sir. The only things they have control over are the appointment of teachers, the salaries they are to receive, and the caretaking of the schools.

THE CHAIRMAN: That is what I mean. We were talking of teachers in different parts of the province. The

citizens, through the board of education, do control the salaries of the teachers.

MAYOR DAY: Yes.

COMMISSIONER DAFOE: And thereby the quality of the teacher, in theory anyway.

MAYOR DAY: In theory that is true, but I do not like to speak too much of this, because the Toronto Board of Education is able to take the better teachers from all over the province of Ontario to perhaps the advantage of the pupils in the city of Toronto, definitely, in the minds of those people from other parts of the province, at the cost of the pupils of other municipalities.

THE CHAIRMAN: And Commissioner Angus' question, as I understood it was this: Would not the citizens of Toronto rather pay extra taxes and have that right, than have a general level of educational standard and qualification of the teachers throughout the province?

MAYOR DAY: No, Mr.Chairman, I do not think the people of this city are so greedy as to expect that. I think they want the people of this whole province given an equal chance with the children of this city.

"Page 2 of the statement, exhibit 1, shows that the City has expended on statutory social services an amount increasing year by year from $158,494 in 1912 to $2,375,340 in 1936."

Would you like to look at that schedule?

THE CHAIRMAN: Yes, just for a moment.

MAYOR DAY:It is found on page 27.

COMMISSIONER MacKAY: What is included in statutory social services there?

MAYOR DAY: The list is on page 32, social services under "H", hospital care of indigents, old age pensions, mothers' allowances - both of those we have been relieved of, Mr.Commissioner, children's aid societies, Ontario

training schools, industrial schools and women's refuges.

THE CHAIRMAN: But the two largest items would be old age pensions and widows' allowances?

MAYOR DAY: No, Mr.Chairman, we are, by the act of the government of a year ago, relieved of the cost of Old Age Pensions now. But the great cost is the hospitalization of indigents and the next largest is the care of children under the children's aid societies.

> "The amount spent in respect of these items in 1937 was diminished below that of 1936 to $1,785,788, this decrease in 1937 expenditure being occasioned by the fact that the Provincial Government having taken from municipalities nearly all their revenue from income taxes, as partial compensation relieved the municipalities of the share formerly borne by them of old age pensions and mothers' allowances, except in respect to the costs of local administration which are still borne by the municipality. The City has no control over this expenditure and submits that none of it can be said to benefit real estate, and accordingly should not be borne by the municipal taxpayer".

THE CHAIRMAN: Mayor Day,how about the care of the children and the Children's Aid, is not that very much in the same situation as the problem of poor relief?

MAYOR DAY: That is under a separate head.

THE CHAIRMAN: Yes, I know it is under a separate head, but if you have children in the city that need the care that the Children's Aid provides why is that not a reasonable charge against the city expenses?

MAYOR DAY: The difficulty is that we get, as a large municipality, these people, especially unmarried persons, coming into the city of Toronto and a child is born here

and the city has to take care of it until it is twenty-one years of age. This is a large municipality, I suppose, and certainly persons in that condition move from one municipality to another, and we find that a very large percentage of wards are in that category. (I hope there will be nothing said about that). It is nevertheless true, and we find that persons from all over the province come in here and these children are made wards and they remain wards until they are twenty-one years of age. They cost us during that period some $4,600. We say that our real estate owners are in no way responsible for that.

THE CHAIRMAN: What is the annual cost to the city of that particular statutory service?

MAYOR DAY: In 1932 it was $10,500, and in 1937 it was $305,000.

THE CHAIRMAN: Thank you.

COMMISSIONER MacKAY: Is it possible, Mayor Day, to say that real estate should be taxed only for the benefit received by it?

MAYOR DAY: I think that is fundamentally so. I think that is why we are a municipality. I think that is why we are a corporation, simply to effect collectively what would be impossible individually.

COMMISSIONER MacKAY: But are there not certain social burdens thrown on the community, the people of Toronto, because it is an industrial centre?

MAYOR DAY: Yes, that is unquestionably so.

COMMISSIONER MacKAY: Does not the very fact that it is an industrial centre indirectly benefit real estate?

MAYOR DAY: It may.

COMMISSIONER MacKAY: Perhaps not right in the immediate area where the burden falls.

MAYOR DAY: That may to a certain extent, but we have in this brief tried to be reasonable. We are pointing out

these things. We could have said a great deal more and used harsh language, but we have not chosen to do so. We feel that this honorable Royal Commission is sincerely interested in this and we simply are presenting the problem as we see it.

COMMISSIONER MacKAY: Quite. I do not mean to cast any reflection on your presentation. I am merely questioning that general thesis, whether taxes on real estate should only be in proportion to the benefit directly received by it.

MAYOR DAY: Certainly that should be fundamental for the basis of real estate tax. Income, no matter from what source it is derived, should be taxed to provide social services of all kinds. I think that is fundamentally correct. On the other side, there is no reason why a person simply because he owns a house should have a capital levy made on that house annually for such things as social services, irrespective of either the revenue from the house or the value of the house, because today assessments are one thing and selling price is another.

COMMISSIONER MacKAY: Of course that raises a different question.

MAYOR DAY: Of course it does.

COMMISSIONER MacKAY: And that is the method of assessment that is adopted in Canada.

MAYOR DAY: We know how much money we must raise and the amount we control. I can show you very definitely we have cut year after year, and we have cut that down because these costs over which we have no control whatsoever have gone up and up and simply without by-your-leave, we are handed the bill and we must pay it.

COMMISSIONER MacKAY: Quite. I think you misunderstood me. I simply meant that here in North America we followed the system of assessing real estate at its capital value

rather than its income.

MAYOR DAY: Yes, you were going to say at its earning value or at its capital value?

COMMISSIONER MacKAY: Yes.

MAYOR DAY: But to change that would certainly be a very great fundamental change, and it would be extremely difficult as far as we are concerned here.

COMMISSIONER DAFOE: Your position, Mayor Day, is, I judge, that where you have so great a congregation of human beings as in the city of Toronto, there should be social services in that area.

MAYOR DAY: Unquestionably, Mr. Dafoe.

COMMISSIONER DAFOE: Your point is that there is no reason why they should be imposed upon the people who own real estate, is it?

MAYOR DAY: That is correct; we have something less than 100,000 taxpayers out of a population of some 600,000. The fact that a person is a taxpayer, is no reason to believe that that person has money. The fact is, that in recent years, we have confiscated a lot of this property because of excessive taxation. Real estate represents nothing, now, in the way of an estate, as it did at the time the Municipal Act was passed. It is our belief that the Municipal Act and the Local Improvement act of this province are out of date, and have outlived their usefullness. It is our opinion that there should be a new set up altogether so far as the municipalities are concerned. These costs, as of to-day, have grown out of a belief that they are municipal costs.. They are costs we are all willing to pay, one way or another, but the people who are paying the most of these costs, are not the people who properly have the responsibility. From time to time, the federal and provincial governments get a city started on some kind of service, and then withdraw governmental support, leaving the city to carry the burden. This is wrong. If the service were cut out and the expenditure cut off, so that it no longer had to be paid, there might be some sense to it. However, to simply withdraw and leave the city to carry on is, to a great extent, responsible for the position

in which the city finds itself to-day.

COMMISSIONER DAFOE: Particularly when a city is restricted practically to a real estate tax, I suppose?

MAYOR DAY: Yes, 91 per cent or more comes from real estate. A city has no power to invoke new taxes. New taxes are never popular, but even when the city comes up to the government to ask to be allowed some new source of revenue, the city has not been permitted to have it.

With respect to hospitalization, I read from the brief:

> "Under the British North America Act (Sec. 92, item 7) the maintenance of hospitals is definitely and specifically set out as a function of the provincial legislature and it is the provincial government that sets up the standard to which any hospital must conform in order to be recognized as a public hospital within the meaning of the Ontario Public Hospitals Act and without such approval public municipal funds could not be paid to the institution for care of its indigent sick.
>
> Under this statute, provincial authorities define the amount that shall be paid by municipalities for maintenance of indigent patients in public general hospitals and the following statement indicates the per diem rates required to be paid by municipalities during the entire period of hospitalization and the government's supplementary amounts payable only for fixed period; during the years 1912 to 1937."

In this respect there is once again the situation where the province sets the standard and the city pays for it. The rates are given at the bottom of page 17 in the brief. In 1912 the city paid $1.00 per day and the

province twenty cents. This practice continued with the city paying various amounts until 1937, when the city paid $1.75 per day and the province sixty cents. You will note that in 1932,-33, and-34, the province paid sixty cents per day and during part of this period the provincial rates were reduced by 7 ½ per cent to 15 per cent. Returning to the brief, I quote:

> " The following statement indicates the increasing amounts expended yearly by this municipality for hospitalization of indigents and out-patient treatment from the year 1922 to 1937, inclusive."

In 1922, it amounted to $711,701, and in 1937, it amounted to $1,389,655.

THE CHAIRMAN: I notice that there has been a drop since 1935.

MAYOR DAY: Yes, there has been a drop since that time. The city has changed the agreement; it formerly paid the hospitals at the rate of thirty-two cents per out-patient which cost something like $150,000. The city took a leaf from the government's book and paid the hospital a set sum of $100,000, thus saving itself the difference. The system of investigation has been changed with respect to people applying for hospitalization and this has tended to cut down this amount. The next item is also cut down. In addition to that $1,389,000, the following amounts were expended for medical services under the Unemployment Relief Act to families receiving unemployment relief for the years 1934, 1935, 1936 and 1937. These amounts are set out at the top of page 19. By 1937 the amount had been reduced to $85,200. The government, by the way, sets the per diem which the city shall

pay for persons on relief.

Quoting now from the brief:

> "Hospitals, for obvious reasons, must be located in centres of population, preferably in close proximity to Schools of Medicine, and the provincial government stipulates the standard of such institutions and also by law makes such service available to indigent residents of any part of the province, who acquire three months' residence in the municipality where the hospital is situated, it would therefore, appear reasonable that the provincial treasury should provide a more equitable proportion than at present."

It is a common experience for a city to have a man moved into the city, register as unemployed, and after the three month period has elapsed, have him bring his wife into the city and have her hospitalized at the expense of the city. Continuing to read from the brief:

> "Regulations are from time to time issued by the Ontario Department of Health, under authority of the Ontario Public Hospitals Act, the present Act having been amended in 1931, this Act providing the amount which shall be paid by municipalities for maintenance of indigents and to relieve municipalities from financial burden of this service would require revision of the Ontario Public Hospitals Act."

THE CHAIRMAN: Mayor Day, perhaps you could state to us the substance of the next two sections, and then come to the important matter of unemployment relief.

MAYOR DAY: In connection with sanatoria, the government, at its last session, did agree so far as T.B. patients

were concerned, to take over that cost. It is our contention that inasmuch as the government has taken over this cost--the government is making regulations which are going to minimize the advantage sofar as the city is concerne.--the government might go further and extend it to the point where hospitalization would be a matter which the provincial government controlled instead of the municipalities, as now.

THE CHAIRMAN: You mean hospitalization of T.B. patients, do you?

MAYOR DAY: Yes, sir; the next part of the brief deals with child care and protection under the Childrens' Aid Society. As I stated a few moments ago, in 1934 the government raised the wardship from 16 years to 21 years. This increased, by a substantial amount, the cost to the city. It is realized that this is an important phase of social service, but it is our contention that it is not properly a matter for which the city should be charged.

I return to the brief at page 21 and read the paragraph under the heading, "Unemployment Relief":

> "By the Act of Confederation, the establishment, maintenance and management of charities and charitable institutions as well as hospitals is clearly set out as remaining in the hands of the province and while unemployment relief known as such was not then definitely provided for, it could reasonably to-day come under this heading.
>
> Before Confederation, when the province of Upper Canada adopted the English law in respect of property and Civil rights, it very expressly did not adopt the Poor law of England (which placed the obligation of maintaining the poor upon local authorities), and it was

"not until as recently as the year 1935 that any mandatory act of the Ontario legislature was placed upon the statutes, definitely making municipalities responsible for such care and it was therefore seen that only through custom, due to the early practices of municipal self-government, that relief to the poor came to be looked upon as a local responsibility.

There are, however, certain provisions in the Ontario Municipal Act, whereby Municipal Councils may grant aid to any charitable institution or furnish outdoor relief to the indigent poor.

With the advent of the depression and its resulting unemployment in 1930 the Dominion government, while definitely taking the attitude that the constitutional responsibility for such relief devolved upon the provincial and municipal authorities, were prepared to render financial assistance 'because of the continued existence of an abnormal situation.'

Under an agreement entered into between the Dominion and provincial authorities, both governments undertook to extend assistance to municipalities in the form of grants-in-aid of the excess expenditure over and above that amount normally expended by the municipality for relief purposes, such financial assistance to cover the period from October 1st, 1930, to March 31st, 1931.

For the Dominion governmental year 1931 to 1932, provision was made under agreement with the province of Ontario that both governments would reimburse municipalities to an amount not to exceed two-thirds for all expenditures by municipalities for unemployment relief.

"The Dominion government grants on the basis of one-third of total unemployment relief expenditures by the municipalities was terminated on July 31st, 1934, being at that time replaced by monthly lump sum grants-in-aid for disbursement by the Province.

The government of Ontario on December 31st, 1935, discontinued making payments to municipalities on the basis of 66 2/3 per cent and substituted a plan whereby for the first three months of the following year rebates would be made on a basis of 75 per cent of all expenditure but for the later nine months of that year, while the 75 per cent basis was continued, a maximum for each of those months was set up. These quotas later in the year were reduced as from April 1st by 7½ per cent.

As under this plan all expenditures exceeding the monthly quotas must be fully met from municipal funds, not only was accurate budgeting next to impossible but from the undernoted statement it may be observed that the city's share exceeds 25 per cent not only of gross expenditures but of all admittable items."

It must be borne in mind that there are certain items which the city must provide and in which the government does not share. The city also has to provide for the payment of administrative expenses.

Returning to the brief, I quote:

"On March 30th last municipalities in this province were advised by the Ontario provincial government the basis upon which financial aid would be furnished the municipalities for the year 1938, taking as a basis the fixed monthly grants received by the province from the Dominion authorities which

"it is stated, would approximate 22 per cent of the total gross cost to all municipalities in this province, to this amount the province added approximately 42 per cent making a total contribution of approximately 64 per cent leaving the balance to be met from municipal sources of approximately 36 per cent exclusive of amounts required to be expended for administrative purposes and non-admittable items.

While the Dominion government has not at this date indicated the amount of their monthly grant-in-aid to the province of Ontario beyond March 31st of the current year, that being the end of the Dominion's fiscal year, the provincial authorities have advised municipalities that for the remaining nine months municipalities should budget for at least 30 per cent of estimated gross costs of relief which together with the municipalities' share for the first three months already paid would approximate an average for the entire year of 36 per cent as compared to 29.9 per cent for the year 1937, in both calculations administration and costs of non-admittable items are included."

At the bottom of this page, there is a table showing the city's share of admittables, in percentages, as compared with the city's share of gross, including administration. In 1938, the city's share of gross is estimated to be 39.5 per cent which is the highest it has ever been.

Continuing to quote:

"Under the provisions of the Unemployment Relief Act, 1935, passed in the session of the legislature of Ontario in 1935--"

THE CHAIRMAN: You have covered that already, you have told us that.

MAYOR DAY: Yes, it is well-known. Coming down to the curtailment of civic services due to lack of funds, I read the paragraph on the first one, Health.

"Health.

The services provided by the Department of Public Health of this city are dealt with elsewhere in this brief. Owing, however, to the constant inroads made upon the resources of the municipality, particularly the sums required to be spent for unemployment relief, it has not been possible to maintain the same standard of service in proportion to population or to keep abreast of the times in the application of essential developments in public health.

Police Services: Notwithstanding that the population of this city increased between the years 1930 and 1937 by 23,866 persons, and that between the years 1929 and 1936 there was an increase of some 34,242 passenger and commercial motor vehicles registered in Toronto, resulting in a tremendous increase in police duties, the Police Department has been required to carry on with reduced appropriations as hereinafter indicated."

The figures for this department have already been given.

THE CHAIRMAN: Yes, we have those figures.

MAYOR DAY: You have the figures, and you can see that there is a drop from year to year. The amount will be approximately the same this year. Because of the curtailed expenditure, the city has been unable to under-

take many of the services which should be provided. Brake testing provides an example of a decreasing service. This service, the city believes, is necessary in order to cut down the number of injuries and fatalities from motor vehicles. It has had to be suspended because of lack of funds. Fire protection shows that this department has likewise been required to effect a reduction in its appropriation. In 1938, the appropriation for the fire department was $2,599,797.00, while in 1938, it was $2,570,400. Operating departments is the next item dealt with in the brief and this is where the city really has some control. Quoting from the brief:

> "The operating Departments of this city consisting of the Parks, Property, Street Cleaning and Works, have likewise been required to effect important reductions in the expenditures of their respective departments. A comparative statement of the current expenditures of these departments is as follows."

(Page 7152 follows)

Then we have below a comparative statement showing the cost from 1931 to 1937; you have it there before you, Mr. Chairman. The table shows in 1931 the operating departments spent $8,091,686; in 1937, $6,192,477, a decrease of $2,131,754, or a percentage decrease of 23.47, and that percentage decrease in 1938 goes over 26% because we had to cut them still further in 1938.

"In order to provide funds for social services and unemployment relief demands, the council has found it essential to seriously curtail the necessary appropriations for civic services which otherwise affect the well-being, comfort and enjoyment of the citizens. The maintenance and operation of buildings, roadways, sidewalks, sewers, street cleaning, garbage collection and disposal, waterworks, parks, recreational activities and services of like character have been restricted to a degree tantamount to unwisdom, and repairs have been slighted, thus reducing the life period of the units involved. This has resulted in unsatisfactory service and brings closer the day when added capital expenditure will be required for replacement.

Recreational and playground activities have by reason of reduced appropriations, been unable to adequately serve the increased demand for such facilities brought about by the enforced excess leisure time of the unemployed.

It is apparent that unless the municipality be relieved in some manner of a large measure of expenditure imposed by social services and unemployment relief requirements, a cumulative burden will be created with dire consequences to the ratepayers. The demands for essential services to the citizens are annually expanding while funds available therefor

"have shown a marked reduction as indicated by the table above set forth.

Being required to spend large sums of money for social services and unemployment relief both on current and capital accounts, the City has been prevented from carrying out outstanding needed public services and improvements which must be financed by capital outlay. Two of such essential improvements are the provision of an adequate sewage disposal system for the whole of the City (exclusive of North Toronto which has already been provided), and the provision of additional highways to satisfactorily cope with the ever-increasing traffic. These requirements are of major and imperative importance and the consummation of them would be markedly advanced if the Corporation were relieved of social service and unemployment relief expenditures.

The outlook for municipalities under present conditions is not very pleasant to contemplate. The spectre of unemployment still stalks in our midst. Expenditure for its relief has not decreased as we hoped it would. The tax burden on the ratepayer is unduly oppressive. Assessments are going down and as they go down the tax rate must, of course, go up. In all municipalities we see many vacant lots occupied in some cases by parked automobiles where the owner has deliberately torn down his building in an attempt to rid himself of some part of his taxes. Municipalities are steadily assuming by tax sales the ownership of more and more land that is unsaleable under present conditions. Some method must be found to reduce taxation to a more bearable amount.

It is hoped that the work of this Commission will result in some more equitable distribution of

"the cost of government and a decrease in the amount of such that is borne by the municipal taxpayer."

I submit this most humbly, Mr. Chairman, on behalf of the City of Toronto, and on behalf of The Ontario Mayors' Association.

THE CHAIRMAN: Mayor Day, yesterday we had a submission from the Construction Industries of Canada, in which they contended that the high tax on real estate, - municipal tax on real estate, was retarding building and the operation of the construction industry. I would be glad to have the benefit of your views on that question.

MAYOR DAY: Mr. Chairman, for myself and the members of the Board of Control, who are with me, and the members of the Council to the last man, if they were with me, would endorse that statement. We know that building is definitely being retarded. We know, from looking over the lists of men unemployed, that there is a very large number of those men at present unemployed who were formerly employed in the building industries. People simply will not,-having in mind ever-increasing taxes, and having in mind the experience of their neighbors, - take a chance on building either for business or domestic use. There is no speculative building going on as there used to be, and the percentage of owner-occupied houses in Toronto has gone down, all of which we submit is because of the fact that these costs of our unemployment relief and social services have been placed against the real estate owner. We honestly and sincerely do submit that if these costs were taken off the shoulders of the City of Toronto, as a Municipality, that it would immediately result in a very large increased number of houses and buildings of all types, which here in the City of Toronto would result in lower taxes, not only on those at present built, but lower taxes on those which

would be built, and would be to the benefit not only of the present taxpayer but to the unemployed; it would improve our housing conditions and generally stimulate business.

THE CHAIRMAN: Dealing with the unemployment question, are you able to give us the percentage of the City expenditure which applies to unemployed men who are employable, who are out of work because of economic conditions, as compared with the amount that is expended for unemployables?

MAYOR DAY: We made a study of that a year or perhaps a year and a half ago, and we found at that time that only eight per cent of those on unemployment relief, as aside from ordinary relief, were not employable.

THE CHAIRMAN: If you were relieved of unemployment relief, - of those who are employable, you could reduce your tax rate about four mills.

MAYOR DAY: Yes. Unemployment relief, in this year's tax rate, costs us four mills.

THE CHAIRMAN: You would not be able to reduce it by quite four mills then?

MAYOR DAY: No, because we have approximately $7,500,000 capital costs. But if we could see that that was coming down to nothing in a relatively short period, I am sure it would have almost the same effect as if we were immediately able to do that. We have in our current budget $1,000,000 of current account, and the balance is on capital account.

THE CHAIRMAN: What is your estimated total expenditure this year for unemployment relief?

MAYOR DAY: Last year it was $7,100,000, and this year it is I think $7,400,000.

THE CHAIRMAN: And you have capitalized something over $6,000.000.

MAYOR DAY: The net cost to the City; it is down here as $6,800,000. We expected the Government would continue to refund the same percentage as last year, and now we have

found they are not going to do that, which makes $6,800,000 which you have in this brief, - a figure higher than that. That is total relief including the Government's share; that is the gross amount.

THE CHAIRMAN: What was the net amount actually expended for relief last year in Toronto?

MAYOR DAY: $7,194,000.

COMMISSIONER DAFOE: That is from all sources?

MAYOR DAY: Yes, and our share was $2,409,000.

THE CHAIRMAN: Did that $2,409,000 include any interest on the funded debt for relief?

MAYOR DAY: No Sir.

THE CHAIRMAN: That is the actual expenditure?

MAYOR DAY: That is the actual expenditure.

THE CHAIRMAN: I ask this, Mayor Day, because it has been raised in many places, where they ask to be relieved of the cost of unemployment relief, how about the administration. If the Dominion or the Province took over the primary responsibility for unemployment relief, of the employables, would it be as efficiently and economically administered by the Dominion or the Province as by the Municipality?

MAYOR DAY: I think it could, especially in an area such as this, where we find that the standard of relief is, to some extent, different as between Toronto and these bordering municipalities, that are urban municipalities, and I think - this is my personal opinion - that relief should be zoned, and that within a certain area the standard of relief should be the same and it should not be possible for this City Council and that County Council and that Township Council to all have different standards, as they do have at the present time.

THE CHAIRMAN: Has the City found that people move in from municipalities where the relief standard is lower than in Toronto, - that they move in to Toronto to get the benefit

of relief?

MAYOR DAY: Yes, and we find that people come in here from all parts of the Dominion, establish residence and then want relief. We are bound to take care of them and charge back for a certain period the relief to the municipality from which they came, although sometimes it is almost impossible. But it is done, and after they are here a period of one year then they are citizens of the City of Toronto and we have to continue to take care of them indefinitely.

THE CHAIRMAN: Have you any idea how many have come in in that way during this period of depression?

MAYOR DAY: I am afraid we have not those figures, and they are exceedingly difficult to secure. A person may have maintained himself for perhaps a period of a year or two, or perhaps a shorter period, and then represents himself as a citizen of the City; he maintains he has always lived here and he almost automatically goes on relief.

THE CHAIRMAN: Mr. St. Laurent, are there any questions?

MR. ST. LAURENT: No. There was just this one question, and not to detract at all from the view of the brief; the figures that have been used are the actual current dollars for each of the years in question?

MAYOR DAY: Yes.

MR. ST. LAURENT: And there has not been, in this brief, the establishing of the proportionate costs on the value of the 1913 dollar as compared with living costs, such as was done in the brief of the Citizens' Research Council?

MAYOR DAY: No, we made absolutely no attempt along that line, Mr. Chairman. We did not think it would be of any particular value to the Board. Certainly the dollar change as between 1913 and to-day is made up by the increase in the assessment of the same buildings, the assessment has stepped up on the same property, I think at least as fast as the dollar value has changed. So that you have the

assessment about three times what it was in those days, and at the same time the mill rate has doubled.

MR. ST. LAURENT: In any event, to put the figures in this brief on a comparable basis with those of the Citizens' Research Council it would be only a matter of applying the factor that is stated in the Citizens' Research Council Brief?

MAYOR DAY: I think so. I think we can show buildings in the City of Toronto that have been changed very little in that period where the assessment is three times higher and the tax rate twice as much, which means they are paying six times what they were on the very same building at that time.

MR. ST. LAURENT: In actual current dollars?

MAYOR DAY: In actual current dollars.

THE CHAIRMAN: The brief will be filed as Exhibit 284.

EXHIBIT NO. 284 — Brief of the City of Toronto and of The Ontario Mayors' Association.

THE CHAIRMAN: Mr. Mayor, we thank you for the presentation of this brief; it very clearly and forcibly presents the position of the City of Toronto and other Ontario cities. The matter will receive our most careful consideration.

MAYOR DAY: I thank you, Mr. Chairman. We appreciate very much to have had the opportunity of presenting this brief to you. We have a great deal of confidence in you, Sir, and your fellow commissioners, and we anticipate your report with the utmost pleasure. Our only prayer is that it will be acted upon.

COMMISSIONER DAFOE: The powers of anticipation are notoriously better than the powers of achievement.

MAYOR DAY: Mr. Chairman, you asked me a question which I could not answer, with respect to the difference in those figures. Now, I find that there are certain miscellaneous

revenues that the Government enjoys; motor cycle licenses, rental permits, sales of lands and buildings, equipment, and so on, which make up the total.

THE CHAIRMAN: The next brief is that of the Property Owners Association of Toronto.

Mr. H. E. Manning, President, Property Owners Association of Toronto, was called:

MR. MANNING: With me, Mr. Chairman, there are a number of the members of the Board of Directors of the Association whose names I will put on the list that I am handing to Mr. Fowler.

THE CHAIRMAN: Give the names to the Reporter so that they will be on the record.

MR. MANNING: The names are as follows: F. W. Hill, First Vice President; J.E. McMillin, Second Vice President; A. N. Dewar, Third Vice President; Robert Forsyth, K.C., Director and President of the Property Owners Association of Ontario; Norman W. Long, Director and Honorary President of the Property Owners Association of Ontario, A. H. Cox; Alex. Grant; W. H. Little; J. E. Trotter; William Vokes; Arnold M. Ivey; Directors; Mrs. A. M. Guest and Mrs. L. H. Nicholson.

THE CHAIRMAN: You are very strongly backed up, Mr. Manning.

MR. MANNING: Yes, I hope I am worthy of the backing. May I say this before I start, Mr. Chairman. I had thought it might be better to speak extemporaneously to the submission that is made here, but when I try to do that I find I cannot do it in as few words and there are very few things in this brief I would not like to say. Might I say this also, in the very nature of the thing it is not, in our submission, a matter of detailed figures, but we are trying rather, to give some perspective view, if you like, of the problems of the property owners. With that in mind we have

have tried to direct ourselves to perhaps what might be an ambitious flight into philosophy of land ownership and land experience. With that, I should say this, that for general information we have been much handicapped in the inability to find as exact information as we should have liked to do, of a broad character, which would justify some of the statements which we make. Some of them must necessarily be founded on conviction and experience, and the inference one draws from those things rather than from detailed facts.

(Page 7164 follows)

I proceed to read from the brief:

"We recognize that some of our submissions may be regarded as controversial and that others may be looked upon as impossible of fulfilment. We recognize also that current studies of taxation, and particularly land taxation, are seriously handicapped by a lack of detailed information, which is the more remarkable because of the very large proportion of the total tax revenue of Canada derived from, or based upon the occupancy of, land - a proportion substantially higher as we believe than that found anywhere else in English speaking British Dominions. Not only so but, apart from the efforts of various groups interested in the ownership, development and operation of land we have, in the limited time available to us, been unable to find any studies in respect of taxation in Canada, and its exemplar in this regard the United States, which in our judgment have given adequate consideration to the effects of what may be called the North American land tax system. Attention has frequently been given to the administrative side of the question, there has been much discussion of methods of achieving equality of assessment, the limitation of land tax burdens, the invention of supplementary tax revenues and the like. But we have been unable to find any comprehensive study of the effects of the land tax system on building enterprise, its social consequences in respect of home ownership, the development of sectional prejudices, the flight of capital from investment in land and the collapse of the revenue resources of municipalities and many correlated problems."

I might say that in the course of our study reference was

made to two authorities which we believe the most modern published on this continent and in which I could find no trace of any consideration of those aspects of the problem. They are noted in the foot-note. Those are the Twentieth Century Fund, and Professor Studenski and some of his associates.

> "Certain basic assumptions with regard to the stability of land tax revenues and the moral propriety of heavy taxation on the ownership of a special gift of nature seem to have governed the thinking of those students of taxation who have taken the trouble to publish their views. By and large the aftermath of the colourful dissertations of Henry George seems to be a widely held conviction that in a peculiar way land ownership should in all cases be stigmatized by inescapable tax liability. This is the more remarkable in that the ownership of many other forms of property is considered highly meritorious and deserving of all the encouragement that can be given to it by the State. We discard the single tax theory as impracticable, yet, we adhere to its declamatory conclusions. What has happened is thatmoral indignation has been raised to the false status of an economic principle."

I would suggest that if at any stage in the course of my reading of this, Mr.Chairman, I should seem to have transgressed the facts, I should be very happy to be interrupted and to endeavor, at any rate, to justify the position that is taken.

> "In our submission the result has been a confusion of thought which has brought our whole tax system within a measure of collapse, and which is in danger of bringing about profound social changes of a character likely to produce political instability

and the destruction of the more thrifty and reliable part of the community. We therefore ask your indulgence in putting forward views as to the changes necessary to revive confidence in home ownership, the economic use of land for other purposes and the consequential revival of the building trades. We have sought to be objective and unprejudiced both in our use of factual material and in the measures which are recommended as in our judgment necessary to produce a reversing of the disastrous trend of the past twenty years.

The keynote of our submission is based on criticism of the common ideas that our Canadian land tax systems are justified on the twin assumptions, the one that they are proper measures for controlling and resuming for the benefit of society the unearned increment of land values and the other the diametrically opposite view that, taxes being from the landowners' point of view a cost of production, the tenant pays the taxes. From either point of view (and both points of view though based on entirely different approaches seem to be held simultaneously by a large number of people) the resulting conclusions are not in accord with such facts as are known to us. In our submission it is open to very serious question whether, looking at the whole land tax system, there ever has been an unearned increment in land values which can be said to have been stabilised since before the end of the 19th century. Mere records of boom time sales are not evidence of stable values from which the existence of an increment can be truthfully asserted. Reliable statistical data are non-existent. Assessment returns

are in our belief utterly unreliable and unconvincing. There are no other specific data from which conclusions can be drawn. One must rather make deductions from broad general experience. In our submission it is also demonstrable that, regarded as a statement of economic principle and in the sense of a description of the incidence of taxes, it is a complete misapprehension of the facts to insist that the tenant pays the taxes."

I shall return to that theme again.

"It follows that land taxes which are beyond the supporting power of land revenues, reinforced as they are by inadequate machinery for rectification of assessments, by the personal liability of the landowner and by the summary procedure for destroying the landowner's hold on his asset implicit in tax sale provisions, have become in a real and deadly sense supplementary income and property taxes from which people at large seek to escape by selling out at a sacrifice or abandoning their lands under tax forfeitures. We have a recent widespread flight of capital from investment in land, a growing belief that ownership of a permanent stake in the community is foolish, and a universal feeling of insecurity. Those things in our belief are among the major causes of the present acute sectionalism in political thought. Canada is in danger of becoming a country not desirable to live in because one's very home and property have become insecure."

Now, as to facts:

"Of the many evidences of the excessive burden of taxation imposed upon or with reference to the occupation

of land we shall not attempt to make an exhaustive statement. It is notorious that residential properties are offered for sale at figures frequently from twenty-five to fifty per cent under their assessed values without any rapid absorption. One could pick out spectacular cases where there has been a very much greater discrepancy. Rents of houses have been so low that commonly there is no net return to owners not attributable to value of buildings. There has been a noticeable tendency to demolish residences of the older type even in such favoured residential areas as South Rosedale. Many corporate enterprises owning and operating apartment houses have been forced to go through re-organizations in which their funded obligations have been cut down with resulting loss to security holders. Notwithstanding a pronounced lag for some years in the construction of new residential accommodation and a relatively diminished number of available vacant houses, rents are generally lower for both apartments and private dwellings than they were ten years ago - a circumstance sufficiently remarkable in view of the popular notion that the tenant pays the taxes.

It is equally noteworthy that similar manifestations are observable in the downtown area. Some of these manifestations are indeed much more conspicuous in respect of business properties.

The fundamental test of the economic soundness or unsoundness of our tax system is after all to be found in the lack of revival in the building trades notwithstanding a marked revival in other business activities. The best of the years since

1931 reveals a lower volume of building permits than the worst of the ten years preceding. If there were any adequate economic benefit in the ownership of land there would be no such lag of new construction.

A further evidence of the weakness of the land-owner's position is to be found in the necessity for continuing in operation the provisions of the Mortgagor's and Purchasers Relief Act, and the accumulation of substantial amounts of real property by mortgagees under foreclosure proceedings."

Then it seems to be necessary for us to discuss some of the reasons for what appeared to be previous indifference to the problem.

"The ultimate line of resistance to pressure for the reduction of land tax burdens seems to be the theory that the tenant pays the taxes. Fortified by that assumption people shrug their shoulders and imagine that the burden of taxes, however it may crush the landowner, is in reality passed on by him to his tenants and thus equitably distributed over the entire community. Therefore in demanding a change a small class in the community seeks to improve its position by misrepresenting the real effect of the burden imposed on it and legislative inaction is justified. It is assumed that because land-owners pay taxes therefore in some measure the tenant pays the taxes. But so interpreted the phrase is misapplied. If it has any relevant significance in the discussion of taxes, it must be that increases of taxation can be and are passed on to tenants in increases of rent. There is, in our submission, no justification for the use of the

phrase in any discussion of the tax problem, unless definite evidence can be produced in support of its accuracy. It is, for example, not enough to justify the theory to show that rents and land values increased in Canada during the first twenty-nine years of this century and that land taxes also increased. Both rents and land values would probably have increased by larger amounts in the absence of land taxes. What has determined the amount of rents and the value of land has been the willingness of buyers to pay, and to a much lesser extent the determination of landowners to demand increased prices.

No sufficient study has been made to indicate all the reasons for the weakness of rents in the face of mounting tax burdens. The loose assumption that land taxes, being a cost of production of the services of land, are passed on to the tenant is evidently belied by the facts. It is after all only a phase of the long discarded cost of production theory of values. It is contrary to what used to be considered orthodox economics. 'The achievement of the classical economists was to show that a tax on land values had a fixed incidence; it fell on rent, and could not be passed on in the form of lower costs or higher prices. The owner of the rent was obliged to sustain the imposition, and therefore the value of the land from which he extracted the rent was diminished by the capitalized value of the tax."

I am quoting Mr. Garland who has written a very admirable work on the economic aspects of Australian land taxation, and I find also in the work of Henry George

"Progress and Poverty", a very convenient tag which is placed in the footnote.

COMMISSIONER ANGUS: In most of the discussions of the incidence of taxation is there not a fairly sharp distinction made between the site value, on which it is argued that the tax cannot be passed on, and the rent of buildings on which it is argued that the tax can be passed on.

MR.MANNING: I could imagine that, yes. I am not so familiar with a wide range of subjects as you or the other commissioners would be, because my professional activities have necessarily been directed in another field, but I do carry quite a long experience in the operation of land itself and a good deal of contact with real estate transactions. In my own judgment that is a very convenient academic classification but it does not actually bear out in experience and I have endeavored effectively, perhaps otherwise, later on in the course of this discussion, to reach out after some of the possible explanations of that fact.

> Garland observes that ' .... the amount of municipal land tax which is passed on is probably comparatively insignificant.'

Perhaps if I could come back again to your point, my thought is that the perfectly natural deduction would be that the incidence of taxation, by adding to the costs of operation, would tend to restrict building until such place as demand would begin to restore a price level that would absorb taxes. But I think there is a very, very important qualification in the North American Land Tax system which defeats constantly or which tends constantly to defeat that conclusion, and that is the persistently, inescapable occurrence of a burden that makes it necessary

for the owner at least to salvage what he can, whether it is economically or not economically sound; and I develop that further in this thesis.

> "Those observations, made in respect of taxes of much less burden than those prevailing in Canada, are no doubt much more truly applicable to Canadian conditions".

They were applied in regard to Australia.

> "It is commonly believed that rents are from twenty to thirty per cent lower for many classes of property than they were a decade or even fifteen years ago, and this in the face of marked increases in the tax burden.
>
> It is a demonstrable fact that business assessment taxes in Ontario, though not charged upon land and though levied directly upon tenants, have exerted a powerful influence in depressing rents of commercial properties, particularly in the heavily assessed downtown area.
>
> One may suggest that a substantial reason for the weakness of rents in the face of so called shortage of normal new construction and rising land taxes is that the diffusion of mounting tax burdens on the general body public, such as income and sales taxes, excise and customs dues, has left available for payment of rents a smaller proportion of individual incomes than was formerly available. Beyond that it does not seem anywhere to have been recognized that the pressure of a constant tax drain has weakened the bargaining position of landowners and forced them into uneconomic competition for tenants. In their turn tenants have become increasingly aware of the necessitous condition and demoralization of landowners, and by

reason of the more psychological factor of being pitted in a competitive market against weakened opposition have thereby been able to obtain accommodation at less than cost. Even the driving necessity of finding some means of minimising the drain of taxes on unproductive land tends to aggravate the economic weakness of the landowner by bringing in unnaturally keen competition. In other words there can be no true competition in which the landowner has a chance to exact in rent a sufficient amount of cover taxes as well as other expenses, because he is constantly driven into uneconomic competition to save himself a greater loss than he would suffer by taking an inadequate rent."

COMMISSIONER ANGUS: Are not you really fighting an enemy that is not there? Is there any real assumption on any one's part that the tax on site value is passed on to the tenant? You almost say there is that assumption.

MR.MANNING: I have heard it so often, that I felt perhaps the deliberations of your body have begun to show that I am wrong in anticipating such a view.

COMMISSIONER ANGUS: No, but you attribute it to the classic economists and I am pretty sure that they merely said this, that no one would build a house today unless he expected a rent which would yield interest on his money, depreciation and all the rest of it, and the taxes. They would then say that that would account for the fact that there was stagnation in building. I think that is beyond dispute. They would then say that that situation would right itself ultimately by houses wearing out and being torn down. I do not think for a moment they would contend that the building of houses might not exceed the demand for them and keep rents, as you say,

MR.MANNING: But may I observe this? I am not criticizing the classical economists by suggesting they did not have that view, but what seemed to prevail, and I had heard it so often that it seemed necessary or desirable to say it publicly, was that in some measure there was a tendency towards an equation of returns with the total outgoings, and in my humble submission there is some reason for doubting that very seriously today in Ontario in particular. And it is not by way of suggesting that the classical economists are wrong, but I think they have overlooked one important detail, and that is that the particular economists wrote in England and in England the land tax system is totally different. There is no recurring burden of taxation whether you do or do not derive some benefit from the occupancy of the land. There is in England no concentration of the incidence of taxation on the owner of the land and on the property as such, the burden is really diffused, it rests upon the occupants.

COMMISSIONER ANGUS: I quite agree with the point you are going to come to.

MR.MANNING: And may I say this, the reasoning of that thesis would apply much more specifically under the English system than it would under ours.

COMMISSIONER ANGUS: Yes, I am sure of that. Anyone would admit that if a man had to pay heavy taxes on vacant land he would be tempted to build on it, even if he got less than the usual return on his investment. He might decide to absorb part of the tax on the building. That is why I am saying you are fighting an enemy that is not there and that you will find that any one of them would take that into account.

MR.MANNING: I don't doubt that but I didn't find any

in the discussion of our tax values, and I was amazed that there was no recognition or some comment of that factor. And I have, in the course of discussion with people who have been very zealous in their search for authorities on that subject, I mean men outstanding in the real estate profession, been unable to find anything like it. It may be our lack of effective search, I do not know.

> "The whole system of envisaging capital values as determinable by reference to the prices paid for particular lands in adjacent areas is faulty. The factors which determine the price at which a residence is sold are extremely variable. The dominant factor in the obtaining of a high price is likely to be some consideration personal to the buyer, his preference for some architectural feature, the proximity of friends or relations, the mere accident of good salesmanship or the possession at the moment of an unusual sum of money. Those factors which enter into purchases of land for investment or business purposes are equally remote from a purely mathematical calculation of earning power. Not infrequently the price paid for a particular piece of land is due to the accident that at the moment it is needed to complete a parcel required for some new purpose. It has a temporary scarcity value similar to that of a small block of shares in the capital of a company urgently required to complete a majority holding. In the result the prices paid and recorded are abnormal. Yet in many areas they are the only prices to which reference can be made over long periods of time."

THE CHAIRMAN: Mr. Manning, it is now one o'clock, we will hear you further at One-thirty.

MR. MANNING: Thank you.

AFTERNOON SESSION

The Commission resumed at 2.30 p.m.

MR. MANNING: In the reading of the brief, sir, we had proceeded to the top of page six. I propose to continue:

"Indeed it is doubtful if in the downtown area there are ever any sales of land in respect of which some peculiar influence has not been at work. The anomalies which result are numerous. There are on the borders of the business areas residential slums which may not for long years be needed for any commercial purpose but which are nevertheless assessed at figures extravagantly out of line with any immediate experience. It is not recognized that only a definite amount of land is required at any given moment for residential, commercial and industrial use. That amount is determined by current needs. If the current demand is turned by taxation in new directions, automatically it is diminished in areas in which it formerly flourished, and accordingly values decline. One can see this in the trend during the past fifteen years of commercial and financial business from areas east of Yonge Street to areas adjacently to Bay Street, with the accompanying collapse of land values in the easterly area. Many buildings in the easterly area are operated at a loss or inadequate return to their owners.

In the frequently expressed jealousy of unearned increment we have been induced by reports of land sales at what may be regarded as 'boom' prices to regard those prices as evidence of a persisting long term value. The underlying facts

"have never justified such confidence. In its turn that belief has resulted in valuing lands for which no immediate prospect of sale is in sight on the anticipation that in the future they will be worth the sum conjecturally put upon them. We have taxed owners on wealth which they do not possess because in the inspired wisdom of our assessment appeal they do not possess because in the inspired wisdom of our assessment appeal courts we assume that one day that wealth will come into existence. By retrospect the community will have been justified in taking from the owner not only his increment but such other casual sums as he may have been foolish or unfortunate enough to have paid in taxes. The experience of having supported such burdens is the explanation of the abandonment on tax forfeitures of large areas of land once considered valuable, and, other things being favourable, probably still possessed of economic usefulness. In the result we have destroyed confidence in land ownership. It cannot be restored without a radical change of system improving the future prospects.

What is overlooked is the peculiar nature of land as a thing in commerce. In periods of expansion extravagant views have been held as to its value. Those views have been dissociated from the realties of immediate earning power. Estimates of future earnings have proved faulty. It is a commonplace of knowledge that, over a period of thirty years in a city like Toronto, many parcels of land have been bought at enhanced prices for anticipated

"commercial or residential development, which have subsequently disappointed expectations. Yet these sales have fortified the belief in the existence of an unearned increment value which is properly the subject of taxation. It would be quite as logical and sound from the economic point of view to fasten personal liability for taxes on all persons owning stocks or wheat or inventories of goods on the theory that their liability should be based on the highest price which had ever been obtainable for those assets or on some estimate of their future value. But it would certainly be fatal to the confidence of investors if any such theory were resorted to in respect of taxation of other forms of wealth. We submit that it is a mistake to build, and a greater mistake to persist in maintaining, a theory of taxation on the basis of confiscating possible unearned increment in land values. Society rejoices in unearned increments in values of all other sorts of property because those increments stimulate economic activity. It has been largely the hope of increments, said to be unearned, which has been responsible for construction activity in our past history, and largely a faith in their persistence which has made the thrifty portion of our population anxious to own its own homes. The destruction of those values has had and is having effects everywhere noted and deplored.

It is not commonly recognized, but it is probably in large measure true that the modern twenty and thirty storey office building is at once the product of high assessments of land values and the means

"of falsifying similar valuations of adjacent properties. Such buildings have the effect of sucking up the potential occupancy of older office buildings and the mere erection of such a building on a given piece of land immediately renders less probable the similar use of contiguous land. The reasons are that the demand in Canadian centres for such buildings is of a limited character and the difficulties of erecting similar buildings in close proximity are increased. In the result the realizable value of adjacent properties is reduced. The assessment system now in use, however, operates by what may be called a belief in contagious magic, and it is assumed as almost axiomatic that because a given property is near another property whose owners are unable to escape from heavy assessment, therefore that given property is worth some calculable proportion of the value of the other property, and this in the face of specific evidence relating to the given property. This feature is inevitable in any system of valuation for tax purposes which does not confine itself closely to the immediate manifestations of value to the owner at the time of assessment.

Our point is that this produces results which are harmful to the prosperity of the community. We leave out of consideration the suggestion that it is unjust. It is clearly inexpedient in the long range point of view.

Comparative Taxation In British Dominions

No comparison of land tax burdens in Canada and other parts of the British Empire, however superficial, can fail to bring out startling con-

"trasts, both in regard to the absolute amount of the burden per capita, in regard to the total of tax collections and in relation to estimates of national income. We propose to offer some comparisons of taxation in Canada, the United Kingdom and Australia. In Canada municipal taxes are almost exclusively levied on land including buildings, whether occupied or unoccupied, or on the occupants of land by way of business assessment calculated by reference to land value or rental paid. For the most part those taxes are a charge on the corpus of land value and are assessed against the owner and can be satisfied by the penalty of sale for the arrears of not more than three years. In the United Kingdom there is no tax on land as such. Occupants are rated on the net annual rental value. There is no penalty upon the ownership of land not put to an economic use. Presumably no occupant is taxed where the owner is unable to get a return from his property. In both Canada and the United Kingdom land taxes are purely local. In Australia there are Commonwealth, State and local government taxes. They are assessed both by reference to unimproved land value, to improved land value and to net annual value. In the following table a comparison is made in dollars per capita or percentages in respect of the calendar year 1934 or fiscal year 1934-35 of the relative burdens of so called land taxes."

I might say, by way of explanation of that table, in the figures of the per capita income, all the figures relating to Canada assume that all the tax receipts of the municipalities are derived from land. This would

appear to be an overstatement. I am not exactly informed as to the amount of income tax and other revenue appearing in the municipal tax returns. I would infer, taking the figure of $252,000,000, that being the figure given by the Canada Year Book, that the correct figure would be somewhere in the neighborhood of $230,000,000. On the other hand, it should be noted that in the total of land taxe figures quoted in the Canada Year Book, are imperfect because they are not comprehensive for Prince Edward Island and New Brunswick. As I understand it, those figures do not include the figures of the provincial land tax in British Columbia and Alberta, so that there will be some margin of error. However, even with an allowance for error, the comparative figures are quite remarkable. I might say further, that the English pound has been translated at $5.00 and the Australian pound at $4.00. You will see from the table that the per capita burden in Canada is $23.29, that of the United Kingdom is $18.50 and Australia $9.42.

THE CHAIRMAN: Is that taken on the total population of each country?

MR. MANNING: Yes, it is.

THE CHAIRMAN: It is not based on the ownership?

MR. MANNING: No, because you will appreciate that in Australia, for example, in some states the levy is upon the occupants and in others it is upon the owner. In England, it is entirely upon the occupant, and in Canada, almost entirely upon the owner. These figures are based on the total population and the sources of authority are given at the foot of the page. The next column shows the per cent of total tax collections of all governments. In Canada it is 36 per cent, the United Kingdom 17.6 per cent and Australia 11.91 per cent.

COMMISSIONER ANGUS: Are you speaking of England or the United Kingdom?

MR. MANNING: I should have said the United Kingdom, sir. The next column gives the per cent of estimated national income. In Canada it is 6.97 per cent, in the United Kingdom, 4.09 per cent and there was no estimate of national income to be found for Australia. I have been unable to find a method of computation of the national income of Canada which gives rise to the figures in the Canada Year Book and does not involve a deduction on the score of depreciation, replacement, and obsolescence, or which is a gross figure. I do not know what the proper method would be for reducing it to a net figure. Undoubtedly there would be a very substantial reduction from the gross figure. On the other hand, the method of calculation adopted for deducing the national income of the United Kingdom is on the basis of the net figure. and is here qualified by Dr. Colin Clark, of whose work I have made use in this connection. At all events, there would appear to be a very considerable discrepancy in our per capita burden in Canada as compared with the other parts of the Empire.

Continuing to quote from the brief:

> "We suggest that in the foregoing facts and ratios are to be found the reasons why in England there has recently been a building trades activity which arouses general admiration and envy in Canada, and that the relatively low ratio of local rates, the absence of taxation on unoccupied tenements and the de-control of rents are the decisive factors in inducing the recent English building revival rather than government stimulus to lending

"agencies, as is popularly suggested in Canada.

On the other hand throughout the North American continent there has been a widespread breakdown of building activities. There have been sporadic attempts at land tax limitation and special legislation permitting redemptions of properties forfeited for taxes at less than the amount of accumulated arrears. There have been notorious collapses in municipal credit.

We submit that there is no reason to anticipate any building trades revival until the underlying reasons for the flight of capital from investment in land are removed.

History of Development of Burden

We do not propose to trace the course by which municipal tax burdens have reached their present level, beyond observing that provincial governments have until very recently considered that the administration and financing of all social services should be left to local bodies. This primary and secondary education, technical education and even continuation school classes, are left to local bodies--administration rests upon school boards, of which in Ontario there are some 6,6000 and financial responsibility without control rests upon some 940 municipalities. It must surely seem absurd to any independent student of government that the average Ontario municipality has seven independent school boards for its masters in respect of about one-third of its tax levy. Such a legalised dyarchy in the finance of education has produced inefficiency and mounting educational costs com-

"tribute to the ruin of landowners. So too the maintenance of hospital service for indigent patients, children's aid services and one-third of the cost of direct unemployment relief are charged through the municipality on the landowner. In Toronto in 1936 those charges, which in all common sense seem not to be referable to land ownership, amounted to nearly fifty cents in every tax dollar.

It is not edifying to find that the solution of the unemployment problem discussed between the federal government and that of Ontario is a reduction in the federal contribution, to which the province retorts by threatening an equal withdrawal of support, leaving municipalities to make up the deficiency. The history of poor relief in England, beginning with the Poor Law Act of Elizabeth and coming down through the various insurance schemes, shows a steady tendency toward a national, not a parochial solution. The present retrograde suggestions savour of the abandonment of a desolate child despite protestations of anxiety for its welfare. It is submitted that only by standardization of control and the building up of administrative agencies free from local political influences can the problem be solved.

The habit of casting burdens indiscriminately upon municipalities seems to have been fostered by an unwarranted belief in the magnitude of their resources. The enthusiastic calculations of Henry George and his belief in the magical qualities of a land tax have left us a curious heritage.

"On the one hand crude observation has shown that the economic rent of land has been unable to support the burdens cast upon it. On the other hand there has persisted a belief in some mysterious power of land to support fantastic burdens. There is assumed to be a scarcity which we hope to show is not and has never been in existence. It is also assumed that the landowner enjoys a favoured position enabling him to command an unfair share of the product of human effort, and that there is some peculiar monopolistic element which merits the imposition of burdens, whether or not they be tolerable. What is needed is a clearing out of cobwebs and a realization that theory which produces undesirable results must be faulty. One who seeks a sound solution must approach the problem in an objective and realistic rather than in a didactic and conjectural frame of mind.

We lament the passing of the monopoly of home ownership. We regret the flight of capital from land and its abandonment to inferior uses, yet we persist in justifying taxation of a capital value measured in terms of our assessment rolls without realizing that capital values cannot resist the shock of continued deficits. Nor can they continue to exist in the absence of net revenues. It is submitted that there are no lands in our present communities which do not already bear more than a reasonable burden of taxation. From that it follows that mere readjustment of existing tax burdens upon properties on some new theory of assessment will not solve the problem. It will

"merely make some properties less undesirable at the cost of making the remaining properties less valuable.

Reaction of Land Values.

For the reason that there have been no systematic studies in North America of land revenues it is not possible to make positive statements as to the absence of any true economic rent from land ownership. A system of valuations based on assumed sales prices, including the estimated present value of possible future realizations which may never be attained, cannot give any indication except insofar as it is popularly known to be at variance from reality. It has not been sufficiently realized that values are not stable regardless of tax burdens. Roughly speaking values vary inversely with tax burdens, whether produced by high assessments or high rates or both; but it is a mistake to dismiss the reaction of values under increasing tax burdens as being mere capitalization of taxes. It is more than a mere capitalization because land prices are seldom arrived at by a nice calculation of net returns. They are subject to much more elemental psychological influences. The more general disrepute into which land has fallen in the investor's mind may easily depress values as much below what may be characterised as a proper normal level as the enthusiasm of periods of buoyancy and expansion carries prices above reasonable levels.

Studies have recently been made in England on the basis of returns for income tax purposes

"which suggest that even under the English system of local rates, resulting as already shown in much lighter tax burdens on landownership, there is strong ground for believing that there has been in the past thrifty years no economic return from the mere ownership of land of the character described as economic rent and constituting the source of unearned increment."

I might say that these studies, apparently, are unreported, except in Mr. Clark's work on "National Income and Outlay". They appear to have been made by a Dr. Singer, in the doctor's thesis at Cambridge University.

Continuing to quote from the brief:

"When it is remembered that the degree of urban development is greater in England than it is in Canada then one is led to conclude that, other things being equal, there ought to be a greater unearned increment factor in English land ownership than in Canadian. The studies referred to indicate, however, that whereas in 1910 there was a positive return attributable to land as distinguished from improvements amounting to £49 millions, in 1931, after making provision for returns on the improvements to land and for depreciation, there was a loss chargeable to land account of £11 millions, a decline in twenty-one years of £60 millions, or roughly $300 millions, in annual site value. If similar data were available in respect of Canadian land we are confident they would show enormously greater economic sacrifices arising from the ownership of land. The rapidly increasing amount of municipal land holdings arising from tax forfeitures and many other facts

"already referred to point in this direction."

I come now, sir, to two studies, which are, so far as I am aware, in one sense, original. I have not been able to find in any inquiries which I have made any similar studies which have been made elsewhere. Similar studies in any other country would not be of much use because of the fact that property owners here can be forced to sell under liens. These two studies were made by Mr. A. M. Dewar and Mr. Murray Bosley, at our request.

Continuing to quote from the brief:

> "The extent to which taxation has forced land out of economic use on a remunerative scale may, we think, be demonstrated by an analysis of what has happened within the past ten or twelve years in the principal business, wholesale, retail, commercial and financial area of Toronto. We have in the month of February 1938 had a survey made of the area bounded on the north by Dundas Street, on the west by University Avenue, on the south by Wellington Street, and on the east by Church Street, with a view to showing the extent to which it may fairly be assumed that taxation has since 1927 forced land out of use for normal purposes, and brought about the demolition of buildings to enable land to be put to an inferior use for the temporary parking in the open of motor cars. In that area are to be found a number of properties enjoying exemption from taxation, the principal of which are the City Hall, Osgoode Hall, the City and County of York Registry Offices, the County of York municipal offices, the Court House, a fire hall, police station and Hydro Electric building, the General

"Post Office, the Armouries, the Metropolitan Church, St. Michael's Hospital, St. Michael's Cathedral and convent, the Church of the Holy Trinity and the University Avenue Synagogue. Seven of these occupy each an entire city block."

I think that might be slightly inaccurate as one does not occupy quite a city block.

Continuing:

"There are in addition on the east side of University Avenue between King and Queen Streets vacant lands belonging to the city which are exempt from taxation and have for many years remained unoccupied because there has been no demand for their use."

The map, I might say, was prepared by Messrs. Speight and Van Nostrand, on the basis of a memorandum which was submitted to them showing the assessment records on the property. In the brief we refer to the properties which have been denuded of buildings, and I would not have you infer from that that there are no buildings on this land. There are, what might be termed temporary buildings such as gasoline stations and some of it is used for car parking lots. However, there are no business houses or residential properties on this land.

Continuing to quote:

"The map, Appendix I, shows the extent to which properties have been denuded of buildings and are now used for car parking, gasoline stations or unused, shown in black, lands on which there were no buildings in 1927 are shown with diagonal shading, occupied exempt areas are shown with vertical shading, unoccupied exempt areas are shown

"with horizontal shading. There were in 1927 in this area 17 vacant properties aggregating almost exactly 756 feet of street frontages. There are no less than 96 properties occupying almost exactly 5,430 feet of street frontages from which buildings have since been removed."

This map does represent exactly the change in the occupancy of properties within that area. The arresting feature, to my way of thinking, is that the total superficial area has been effected either by total exemption or by demolition. I believe one would guess that approximately 50 per cent of the total area is either totally exempt from taxation or is land from which the buildings have been removed. If you would look for a moment, you would see that in 1927 there were relatively negligible areas on which there were no buildings to be found and on which there are still no buildings.

THE CHAIRMAN: Where are the areas which were vacant in 1927? How are they indicated?

MR. MANNING: They are shaded in black. You will find one at the upper left hand corner. Coming down Chestnut Street you will find two areas just south of Albert street. If you look again, on the south side of Queen street west, to the east of University avenue; there is a small piece on Pearl street between University and York. There is a similar one on King street and a small piece down University avenue. There is a small piece on Shuter street and a piece just north of Shea's theatre. There is another piece on Louisa street just east of Bay. I think that comprises practically every bit of land which we can identify as having had no building on it in 1927.

THE CHAIRMAN: There have been quite a number of buildings put up on University Avenue since then.

MR. MANNING: Yes, that is true, but not on the east side. This survey does not include the west side. It was thought that this survey comprised, substantially, the business area of Toronto.

Continuing to quote:

> "To a certain extent temporary buildings have been erected on these latter properties. The aggregate assessed value of demolished buildings on these properties was $575,745. The aggregate assessed value in 1937 of buildings substituted or remaining was $48,050. The extent of these demolitions is a striking commentary on the fallacy of the belief that there is such a scarcity of and demand for land as will support values in the face of increasing tax burdens even in the centre of a city of nearly 650,000 persons. It is also noteworthy that all but one of the principal indoor parking garages within the area under observation have been in financial difficulties within the period under review and that the price of outdoor parking facilities has declined steadily from a high level of 50 cents per day to 25 cents and in some cases 10 cents per day. The conclusion to be drawn is that excessive taxes have forced the concentration of certain kinds of business activity into fewer but higher buildings and have forced other sorts of activity into outlying areas. By so doing the tendency has been to aggravate the need for spending money on extensions to other areas of urban facilities such as highway, water, light and power and transportation services.

"The burden of excessive land taxes, in a word, tends to magnify itself like a cancerous growth. In 1937 the amount of vacant land in Toronto covered 60½ miles of street frontage."

THE CHAIRMAN: Mr. Manning, has there not been this important factor in connection with the change in land values in downtown Toronto, namely, the shifting of business uptown with the movement of the population to the northern part of the city. New business areas have been opened higher up Yonge Street. It has moved to Yonge and Bloor and up near St. Clair Avenue and other points in the north end of the city. Business goes there which formerly went to this downtown section, does it not?

MR. MANNING: To a great extent, that would be quite correct. I do not know how far one would be justified in making any statement at all. After all, these are matters largely of judgment, but there is no doubt the development of the motor car and the through highway has seemed to have a very powerful effect in the development of very important community centres. I do not know how far one would be justified in saying that this withdrawal should have been overcome by the increase in population. This is a subject upon which one does not feel competent to make a statement as it would only be a guess.

THE CHAIRMAN: You see, there is another factor, too, that is the disappearance of the distributing house or the wholesale warehouse which was one of the conspicuous features of that business district and which has almost entirely disappeared.

MR. MANNING: That would be particularly true of Wellington Street.

THE CHAIRMAN: The manufacturer deals directly with the merchant and I would think this factor would have a very important effect upon what happened in the downtown section of Toronto.

MR. MANNING: That is quite possible; I find it is remarkable that there is such an extraordinary amount of demolition, without the erection of other buildings. I might make one more observation; There are 60½ miles of street frontage referred to as being vacant/which would probably be much less on what would be called street frontages because we have called vacant some properties which the city would not call vacant.

Continuing to quote:

> "The effects of an unsound system of valuations reinforced by a mounting tax rate are still more forcibly shown in a second study which we have made of two business blocks in the down-town area of Toronto. That study seems to us to epitomize the whole trend of our tax system and to show at once that high taxes always drive land out of superior into inferior uses, and also to show that they do so in degrees varying with the possibility or impossibility of gaining an adequate return from land ownership. The study relates to the history between 1927 and 1937 of the two blocks each bounded by King Street on the south and by Adelaide Street on the north, lying respectively from Bay Street west to York Street and from Bay Street east to Yonge Street. The junction of King and Yonge Streets has always been regarded as the point of maximum value of land in Toronto and the business block lying between Yonge and Bay Streets has enjoyed for many years the highest

"average assessment in Toronto. The north west corner of King and Yonge Streets is assessed at a maximum of $12,250 per foot frontage and a depth of 90 feet. In 1926 it was for a time anticipated that on that site would be erected the most modern office building in Toronto. Important private financial institutions were located in the block, which also comprised the premises of several banks, a large newspaper, two theatres, and several large and prosperous retail stores. The block lying immediately to the west from Bay to York Streets was in 1926 not characterized by any modern buildings, and except on the Bay Street frontage had no outstanding buildings or enterprises. Both blocks were in 1927 entirely occupied by buildings. To-day, notwithstanding that the easterly block is still fringed by such important buildings as the Lumsden, Royal Bank, C.P.R. Dominion Bank, Canadian Bank of Commerce, Bank of Nova Scotia, and Imperial Bank buildings, and notwithstanding that the westerly block is immediately fringed only by the Bank of Toronto, Northern Ontario, Bell Telephone and Concourse Buildings as buildings of substantial character, the whole trend of new building has been forced westerly. We believe the principal cause has been taxation.

In area the two blocks are roughly comparable. The westerly block, hereafter referred to as Block "A", has a total usable area of 346,621 square feet. The easterly block, hereafter referred to as Block "B", measures 242,365½ square feet. Appendix 2 is a plan of the two blocks."

This plan will be found at the foot of the other plan. As is said in the text, the areas which are marked in black are areas from which, at the beginning of 1938, the buildings have been removed. The areas covered by buildings which have remained entirely unoccupied for more than six years are represented by diagonal shading. These would be such buildings as the old Cawthra House.

THE CHAIRMAN: Would you mind repeating just what you said a moment ago?

MR. MANNING: The unoccupied areas are shown with diagonal shading and are properties occupied by the old Cawthra House, the Canada Life Building and the Old Home Bank building. These have remained, for all practical purposes, wholly unoccupied for more than six years.

Continuing to read from the brief:

> "Areas on which in 1938 buildings have been and remain demolished are shown in black. Areas covered by buildings which have remained entirely unoccupied for more than six years are shaded. The remaining areas are occupied by buildings or lanes serving buildings. It is doubtful if two areas more nearly comparable in location, area and natural advantages could be found in Canada, or even perhaps in the United States. In effect there is almost a perfect laboratory for the testing of theories. The results of the study are the more remarkable in that, if anything, the natural advantages lay and perhaps still lie with the easterly Block "B".
>
> Since 1926 there has been a steady tendency to demolish buildings in both blocks and to leave the land available for use in the parking of motor

"cars. But the volume of new construction on the westerly Block "A" is in startling contrast to that observable in the easterly Block "B"."

THE CHAIRMAN: Mr. Manning, is it not a fact that this area shown in black in the southwest corner, is owned by a very important bank and it was contemplated that a fine new bank building would be erected there?

MR. MANNING: That is quite true, sir.

THE CHAIRMAN: And that would, no doubt, explain why the buildings have been largely unoccupied during the period, pending possible demolition or change?

MR. MANNING: I would not like to offer a guess, but one thing is certain, the actual assessment on that property for building is almost zero. Rumour has it, I am not in any position to varify it, but frequently suggestions have been made that the building would be pulled down to make a parking lot.

Continuing to quote:

"In Table 2 which follows will be found a digest of the assessments made in 1926 for taxation in 1927, made in 1931 for taxation in 1932, and made in 1936 for taxation in 1937, with subsidiary data as to tax rates and tax levies. There follows a summary of the gross and net demolitions effected during each of the five year periods in those blocks.

A list of the demolitions by years and bringing in those made in the year 1937 will be found in Appendix 3. For convenience also we have prepared and attach as Appendix 4 a summary of the value of buildings erected in the two blocks in the years 1928 to 1937 inclusive, as revealed by building

"permits. issued for substantial new construction as distinguished from more building alterations and renovation. The arresting fact to be observed in the figures is that in the westerly Block "A" the total value of new construction was $5,900,000, and in the easterly Block B was only $291,000."

I do not think it would be necessary to enlarge upon table 2.

THE CHAIRMAN: Here is a problem, Mr. Manning, which has been well recognized, I think, among real estate men in Toronto for some years, that the movement of business in Toronto, particularly in the financial communities, has been west from Yonge Street and that Bay Street has been looked upon, to a great extent, as tending to supercede Yonge street as the most important and valuable street in downtown Toronto. This tendency westward--I do not know the reason, but it is a fact--can that be said to be due to taxation or is that a general movement by reason of the movement of population?

MR. MANNING: Our submission is that it has been very largely due to taxation. I think consideration of these graphic results will tend to reinforce this view.

THE CHAI MAN: Where is the centre of population in Toronto, as between east and west?

MR. MANNING: I am sorry, I am not able to tell you, sir.

THE CHAIRMAN: It is some distance, is it not, west of Yonge Street?

MR. MANNING: I am afraid I would not be in a position to hazard a guess.

THE CHAIRMAN: You see, when one gets over Church Street, moving east, the values go down rapidly.

MR. MANNING: Even before you get there.

THE CHAIRMAN: Whereas the tendency for values around Bay Streets west has been to increase, in the past fifteen years.

MR. MANNING: Now, the assessment records would indicate that these assessments are higher. The reason for the increase would be a matter of debate. It would perhaps be a matter of speculation as one does not know why these things happen, they just happen.

THE CHAIRMAN: There has been a preference for that district by financial institutions putting up new buildings. Perhaps it was because the land was cheaper there at that time than on Yonge Street. However, there has been a perceptable movement of business westward.

MR. MANNING: If the indications of various sorts which have come to me in discussion with different people are of value, I would suggest they show very strongly that the tax feature has been an important one, because, as we see when we come later on to those figures, there is a marked difference in the rates of assessment.

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COMMISSIONER ANGUS: Mr. Manning, on page 13 when you speak of an adequate return from land ownership, does that mean a return on the market price of the day, or on the assessment, or on the price paid when it was last sold?

MR. MANNING: I do not think one can be dogmatic about that. What is wanted is something that will induce people to go ahead and develop their land. Speaking in the broad pscychology of people I should judge this: that they are not likely to be encouraged to embark on any development enterprise unless they see the probability of getting a return somewhere close to the actual amount that it is costing them.

COMMISSIONER ANGUS: I mean if you were considering a of land, new buyer, he would not pay a larger sum than that on which he expected to get return, and still, the man owning the land might hold out for a price bearing some relation to what he paid for it.

MR. MANNING: Capitalization of assets. That is undoubtedly the tendency in a condition such as we have.

COMMISSIONER ANGUS: And that would mean the adequate return from land ownership would really be an adequate return on its previous value.

MR. MANNING: Well, I do not think I would care to be taken as literally as that, because what I have in mind is this: that somehow or other there must be an return not merely in respect to the building investment but in respect of some recognized sum of money as representing the investment in the land itself.

COMMISSIONER ANGUS: But I am only trying to get at your meaning, as to what sum of money is an adequate return from land ownership. "Adequate return" only has a meaning in relation to some capital value put on it.

MR. MANNING: Suppose you were to take the assessed value, in many cases the assessed value on land is very much in excess of what might be realized from the sale of that

land. Suppose a person had an offer, if you were to take that assessed value as a basis of making a calculation of what is an adequate return, I believe you would find, - if the taxes bore such a relationship to possible revenue as to enable them to get a decent return on that assessed value, you would find a very marked improvement in the building activity. Now, I do not know whether you could put it more precise than that, because I do not think anybody can be precise about what a land value is. It is one of the things, if my experience is worth anything, - that it is the greatest difficulty to find.

COMMISSIONER ANGUS: You say that everything depends on the possibility or impossibility of earning an adequate return and then you say that no one can tell what an adequate return is.

MR. MANNING: What would induce people to develop their land? All I can say is this: I do not believe myself that people would be induced to embark on an enterprise and spend money in building operations unless they were able to see a fairly substantial return on any value which would appear to-day on the Assessment Roll.

> "The reasons for these changes can best be appreciated by a brief graphic analysis of the apparent influence of a mounting tax burden upon the course of each of the several phases of unreplaced demolition, new construction, occupancy for business purposes and tax revenues in the two blocks under consideration.
>
> In Figure 1 we have set forth in the form of a diagram, the manner in which, notwithstanding and in our view probably because of the lower rates of assessment of land, the total assessable value of Block 'A' came in the interval between 1926 and 1936 from less than half that of Block 'B' to a figure nearly 20% higher. It is noteworthy that the total

"of assessments of buildings in Block "A" is substantially less than the total amount of building permits issued in the period under review as shown by Appendix 4."

You will recall that as $5,400,000 and the total assessment of the building is under $4,000,000. In reading these figures we start at the top, the east block, the total assessable value $10,478.00 in 1927 declining in 1932 to $9,845,000, and in 1937, to $8,794,000. when you take the total of land, building and business. The building assessment declined from $1,298,000 to $992,000. On the other hand, in the westerly block you will find a climb on the aggregate assessment from $4,683,000 to $10,311,000 to $10,966,000, and from $877,940 to $3,623,000 to $3,993,000 for the buildings.

"In Figure 2 we show graphically the extent of the demolitions of buildings which were in existence in 1926, and have now disappeared. The percentages relate to the area of land left vacant as compared with the total available building area in the respective blocks. In respect of Block 'B' a second line is plotted to show the aggregate of demolitions plus the area occupied by two sets of buildings which have remained vacant for more than six years. The two sets of buildings in question are the old Cawthra house and the Canada Life Building, representing a very large cubic content, and assessed in the aggregate for $45,000, and the old Home Bank Building assessed for $20,000. 31.19% of Block 'B' has been reduced by taxation, either to no use at all, or the minor use of parking motor cars."

That is subject to the observation you made, Mr. Chairman, as to the possible vacating of the Home Bank Bank Building.

THE CHAIRMAN: Block "A" you mean?

MR. MANNING: No, Block "B" is the easterly block.

> "It is also significant that there has been a sharp upward turn of demolitions in both blocks in 1937 when the tax rate reached the new high level of 35.7 mills, and this notwithstanding the minor recession of land valuations in Block 'A,' and a slightly larger recession in Block 'B.'"

If I might for just a moment direct your attention to the significance of the graph, by 1932 4.01% of the total of the westerly block had been rendered vacant, and continues vacant, by 1937, 7.95% of that block, and by 1938 10.82% of the total area of that block was vacant of the buildings, and denuded property. On the other hand, in the easterly block by 1932 8.047; by 1937, 13.96; and by 1938, 19.88% of the total superficial area was wholly denuded of buildings. The accumulative figure, the upper line, which is plotted for Block "B" shows the combined effect of the demolitions plus the vacancies, meaning that 19.35% was either denuded of buildings or vacant in 1932, 25.27% in 1937, and 31.19% in 1938.

> "Figure 3 represents the respective proportions of the areas in Blocks 'A' and 'B', on which old buildings have been torn down, or in one case partly demolished, and new or substantially remodelled structures have taken their place. It is noteworthy that in Block 'A', where the assessed valuation per square foot is slightly more than one-third of the assessed valuation per square foot in Block 'B', the percentage of rebuilt areas is about five times as great as it is in Block 'B'. Not only so but in Block 'B' about one-half of the new construction credited is really only the remodelling of the building now occupied by the Eastman Kodak Co. on Yonge Street."

The percentages are again rather striking. By 1932, 4.09%

of the easterly block had its "Face lifted" to use a slang phrase, and by 1937, 5.39%. Whereas in the westerly block, 21.65% in 1932, and 28.02% by 1937 of the total superficial area had been rebuilt.

> "Figure 4 shows the degree to which the Assessment Commissioner and Assessment Appeal Courts have resisted the evidences of the destruction of values by taxation in both blocks. There was actually an increase in valuations per square foot made in the assessments for 1932, although there was already manifest a marked tendency toward vacancies and the destruction of buildings, as will be seen from a glance at Figure 2. The final valuation for 1937 shows an entirely inadequate recognition of the realities. In respect of Block 'A' in spite of the increasing area thrown out of occupation by demolitions, there has actually been an increase of nearly 40% in the valuation per square foot in the ten year period."

Those valuations for Block "A" commence at $7.48 per square foot in 1927, to $10.54 in 1932, and down to $10.45 in 1937. Whereas in the easterly block you start at $27.81, go up to $28.16, and come down to $26.07 per square foot.

> "Figure 5 treats the same facts from the point of view of frontage rates of assessment. The explanation for the apparently closer approximation of rates is that, although on the Plan, Appendix 2, Pearl Street would appear to give relatively a greater length of street frontages to Block 'A' than Johnston Lane does to Block 'B', Pearl Street has for all practical purposes been omitted from the calculation for the reason that assessments of abutting lands are almost without exception counted

"either on the Adelaide or King Street frontages, while in Block 'B' certain of the assessments have been made on Johnston Lane, and its length has been included in the calculation."

And there one finds a variation, as regards the easterly block, from $2,912.61 to $2,951.55, and receding to $2,729.86; whereas in the westerly block you find it $895.80 in 1927, it goes up to $1292.00 in 1932 and recedes to $1246.96 in 1937.

"Bearing in mind that the business assessment is a very rough means of apportioning out the combined land and building assessments of occupied parcels of land amongst the occupants and of assessing them for a percentage of the resulting proportion, generally varying according to the nature of the business carried on from 25% to 75% of the resulting proportion, and that no business assessment is made in respect of any unoccupied premises, there is in the variations of business assessments in a given area a crude indication of the degree to which business is affected by taxation. It is by no means a satisfactory indication because in older three- and four-storey buildings the distribution of land assessment must be effected amongst the existing floors and the re ult is a much higher proportion of land assessment in the business assessments of tenants of old buildings than is the case in modern lofty office buildings. In a word the tenant of an office in a fifty-year-old four-storey building enjoys a higher business assessment per square foot than his more up-to-date neighbour in an air-conditioned up-to-the-minute skyscraper who pays more than double the rent. Since the average building in Block 'B' is older and of fewer storeys than a number of new

"buildings in Block 'A' there is relatively less decline in business activity indicated by the graphic presention in Figure 6 than has actually taken place. For the same reason and because, as already observed, the aggregate building assessment in Block 'A' are now less than the total of building permits in the ten year period under review the graph does not show all the increase in business activity which has taken place in Block 'A'."

And then we find this, that in Block "A", the westerly block, the business assessment rises from a little over $1,203,000. in 1927 to $3,034,000 in 1932 to $3,350,000 in 1937; whereas in the easterly block they start at $2,438,000 decline to $1,525,000, and from that to $1,483,000, in the same ten year period.

"The effect of these changes on the relative tax productivity of the two blocks is shown without comment in figure 7."

In regard to the westerly block, starting in 1927 at $149,101., rising in 1932 to $349,767, and in 1937 to $391, 878; whereas the tax productivity of the easterly block started at $353,882 in 1927, declined to $333,945 in 1932, and from that to $314,432.

"COMMENTS ON FOREGOING ANALYSIS

In our submission the significance of the foregoing studies is twofold.

In the first place they indicate at once that there is in a city like Toronto, even in the down-town area, no such pressure of social demand for the services of land in the most favoured areas, and no such scarcity of available land as will support values in the face of a burden of taxation so great as to prevent owners from obtaining a net return from the mere value of their land. They show that

"because of the application of faulty theories of valuation burdens have been imposed which are so heavy as to drive land out of any economic use which could justify the values which that land once had and probably would have continued to have but for the mere burden of taxation. They suggest powerfully that the decisive factor is not merely the amount of the assessment but the amount of taxes resulting from assessments and current tax rates. They show also that although as between two similar areas one may be induced to grow in importance while the other stagnates under the heavy burden of mere land taxes, yet the very area where growth is exhibited can itself be depressed by retrograde tendencies owing to the pressure of land taxes on profits.

In the second place, because the areas selected for study are those presumably best able to withstand the pressure of high taxes, and because all the collateral evidence indicate that other areas are quite as sensitive to the depressing effect of increased taxes, there is overwhelming reason to believe that mere readjustment, on the net revenue theory of value, of existing municipal tax burdens can in no sense be deemed a solution of the land tax problem. Readjustment is no doubt necessary and desirable in the interests of equality of treatment of landowners. But if r adjustment were effected this year it would not produce any revival of confidence in land ownership and development. All that would happen is that those properties which still show some firmness of value because they are taxed less heavily than others in proportion to their net operating revenues would lose value and become less desirable, and the very considerable

"number of properties which have a negative value by reason of taxation and which are a source of economic loss to their owners would still be unattractive for development and of no use in the economic life of the community.

There is perhaps a third conclusion suggested by the studies outlined. It is that the tendency of excessive tax burdens is so far to discourage growth that it kills the tree at its heart, and leaves it to spread in its branches, the result being a ragged and imperfect development which possesses no economic or aesthetic value to the community. Not only so but the flight of investment from tax liability, as already observed, by widening the municipal area requires an uneconomical extension of municipal services. These tendencies may be expected to exist wherever there are no physical features forcing the economic life of the community into narrow geographical areas.

FURTHER OBSERVATIONS OF FACT

Before proceeding to our proposals for the modification of the land tax system there are two further sets of facts to which we would direct attention.

The zeal for public ownership of utilities has been responsible for extensive tax exemptions of such services as the Hydro Electric Power Commission, the Toronto Hydro Electric System, the Toronto Transportation Commission, the Toronto Harbour Commission, and the Municipal Abattoir. It is, of course evident that a public utility enjoying immunity from taxation has an initial advantage against privately owned competitors and, other things being equal, will be able to reduce its rates by the

"extent to which it is not required to pay the taxes which would be charged against its competitor. To that extent the public is deceived as to the cost of the services rendered by a publicly owned utility. To that extent also the general body of taxpayers are burdened with the costs of a subsidy to the consumers of the utility. In Toronto the total amount of exemptions under this head in 1937 was almost $16,000,000.

At the 1937 tax rate the amount of the tax which would have been contributed by private enterprise conducting such services for land and building assessments alone, and not including anything for business assessment was about $570,000. That is roughly the extent of the subsidy by property owners and persons taxed for business assessment to the consumers of electric power and the users of the street car and the beneficiaries of the harbour development.

The other fact is this: Originally, and indeed down to 1921, in Ontario only taxpayers were entitled to a vote for ordinary municipal purposes. The incurring of debts was strictly limited and money by-laws required the approval of a still narrower electorate. One recalls a constant zeal for economy on the part of candidates for municipal office. That zeal has since 1921 been noticeably lessened. Successive Governments widened the scope of municipal powers of borrowing without the consent of ratepayers, encouraged the Ontario Municipal Board to grant to numerous councils the right to disregard the rating limitations in the Municipal Act and the municipal franchise has been thrown open to all the World and its grown-up family, regardless of the

"fact that in the result non-taxpayers outnumber taxpayers by approximately three to one. There are no exact figures available but the ratio may be guessed at with reasonable certainty. In Toronto in 1936 there were sent out 350,500 voters' notices.

Information from the office of the City Clerk indicates a conjecture that about 250,000 persons receive these notices, after allowing for multiple voting in different wards. There were over 265,000 assessment notices sent out in 1936. Some 59,093 persons lived in houses owned by them. One infers from experience that the great majority of people who own land in Toronto also own their own homes and reside in Toronto. Probably not more than 10% of voting property owners and other municipal taxpayers live in rented premises. If so the total number of taxpayer voters each having one vote for the election of mayor and members of the Board of Control is 65,000 persons, or about 25% of the electorate. It is probable that this figure will include all voting individuals paying taxes on business assessments. It is then not difficult to see why economy is a secondary consideration in municipal politics.

PROPOSALS FOR LAND TAX REFORM

In our submission.

1. A much larger share of the cost of education now borne by landowners should be assumed by Provincial Authority. In our judgment this should be not less than 50% of the total cost on the municipal budget.

2. There should be a drastic reduction in the number of administrative boards, and probably considerable centralisation of instructional units."

THE CHAIRMAN: What have you in mind there, Mr. Manning?

MR. MANNING: Well, Sir, there are something like 6600 school boards in Ontario. The problem is not one that affects the City of Toronto particularly, but it does seem to have a very powerful significance throughout the Province, because, as was commented on earlier, there are something like seven school boards to each municipality.

THE CHAIRMAN: I thought you were thinking of Toronto.

MR. MANNING: I was not thinking of Toronto, no Sir.

> "3. Boards of Education should be subordinated in matters of finance to some sort of centralized control and the anomaly of municipal financial responsibility without authority over expenditure should be abolished."

That, I might say, has been in existence since 1850, and it may be a hope beyond the probabilities of realization that one says so, but it does seem to us to be very anomalous and unsound.

> "4. The administration of social services, hospitalization of the poor, children's aid and unemployment relief should be placed under non-political boards controlling much wider areas than the mere municipal area. The number of those boards should be much less than the number of municipalities. Rigid inquiry should be made into the necessity for assistance. There should be in respect of all these services a strict test of means, a prompt cutting off of assistance when not imperative and disciplinary insistence on work as a condition of receiving aid.
>
> 5. The cost of supporting social services should be wholly eliminated from the municipal budget.
>
> 6. We recognize and urge the necessity for

"prompt adoption of measures for the institution of contributory Unemployment and Health Insurance and Old Age Pensions.

7. The exemption of public utilities from local taxation should be terminated.

8. With the removal of the above services from the municipal field any sentimental reasons for preserving an unrestricted municipal franchise disappear. The temptation to win elections by promises of the spending of the taxpayer's money on airports, uneconomically cheap housing, harbour improvements and other enterprises not peculiarly the concern either of local government or property ownership will persist as long as non-taxpayers control elections.

It might very well and very properly be made a condition of the right to vote in municipal elections that the voter shall either be assessed as owner of land which he may lose if taxes are not paid, or be assessed for business assessment, or be assessed and pay taxes on a franchise assessment similar to the business assessment but for a sum of money adequate to ensure real concern for municipal economy.

Beyond that persons receiving municipal moneys have a very debatable right to vote in municipal elections. Such persons are disqualified from holding municipal office. Why should they be entitled to vote in municipal elections?"

THE CHAIRMAN: Is there provision in the Statute disqualifying them from municipal office.

MR. MANNING: From the holding of a seat in Council, Sir.

THE CHAIRMAN: You must have a certain property qualification.

MR. MANNING: But anyone being in receipt of money from the municipality for any service, is disqualified from holding a position in the council.

"OBSERVATIONS ON OTHER PROBLEMS

We are aware that, conceding the desirability of carrying into effect the foregoing recommendations we shall be met with the question as to how the shifting of the burden can be accomplished and where the money can be found to satisfy the liabilities which we propose to have transferred from the municipal field. We are also aware of the enormous difficulty of effecting such a transfer which arises from the mere jurisdictional conflicts of a Federal system. We see clearly the necessity for a harmonious approach to a solution by both Federal and Provincial Governments and the probable need for constitutional adjustments. We see also that our problem is not the only great and crying problem requiring solution if this country is to avoid an economic breakdown. We do not claim to possess the wisdom which would enable us to solve all the other economic and administrative problems, which must in great measure be solved if our problem is to become capable of solution.

We venture to urge, however, with great respect that there are two problems urgently demanding a national solution and that a solution of those problems would render possible the solution of the land tax problem. They are the problem of the Canadian National Railways and the problem of Unemployment Relief.

It must always be a source of wonder that no Government has been pressed by public opinion to a courageous effort to solve the National Railway prob-

"lem. We submit that it is the most colossal example in our history of the failure of Government to manage efficiently a business undertaking. This is not intended as a criticism of either political party or of any particular administration. It is rather a plea for the necessity of recognizing the intolerable character of a policy of draft. In the fifteen years of Governmental operation of railways Canada admits losing nearly one billion of dollars. That is nearly $100 for every man, woman and child in this country. The total long term debt of the Railway is about $3 billions. We admit that we are annually paying interest on liabilities for railway purposes of about one billion of dollars."

And what we admit in our submission is not nearly as much as the facts really show.

"A Royal Commission has considered and reported upon the problem and there is almost complete inaction. Is it possible that we shall have no national attempt to arrive at a solution until the inability of Government to borrow fresh sums of money to meet deficits forces us to a collapse? Or can we not now recognize that from its very nature, Government cannot continue to operate business at losses of fatal dimensions? Must we drift steadily to an abyss in which both the reputation of this country for integrity will be completely destroyed and its internal harmony disrupted by economic disturbances of far reaching effect?

On the other hand if Governmental economies could be effected by some ruthless but necessary attack on the railway problem then the question of finding money for other desirable adjustments in the tax structure of Canada would present no such difficulty

"as now seems to exist.

With regard to the relief of unemployment we are aware of the necessity for patience in respect of the introduction of a system of contributory Unemployment and Health Insurance and of contributory Old Age Pensions. In our belief the cost to the taxpayers of our social services in the Dominion, Provincial and municipal fields alike would be materially reduced by the introduction of Contributory Insurance. The mere reduction in the burden on the tapayers may itself be expected to produce some momentum toward economic recovery and some further alleviation of the burden of unemployment on national economic life. We regret the tendency in some quarters to criticise unemployment insurance as undesirable because it may often fail to be a perfect solution. We regard such criticism as misdirected. There is no justification in private life for omitting to carry accident or sickness insurance merely because the indemnities received are less than the loss sustained. In our belief the maintenance of contributory insurance schemes is of profound value because of the fitting of the burden in such a way as to produce a widespread sense of collective responsibility for and interest in maintaining the integrity of our economic life. Only by such a widespread distribution of responsibility can we hope to maintain stable democratic instutions. On any theory that the State must provide all benefits we shall find an increasing tendency toward the irresponsibilities of communism with its suppression of individual effort and its destruction of personal freedom, or the correlative repressions of the Fascist systems of the World. We believe that Can-

"adian opinion is overwhelmingly individualistic and overwhelmingly devoted to the faith that men should be permitted not only to produce wealth without fear of its confiscation by the State, but are entitled to demand the continued enjoyment of the wealth acquired by them. We believe also that it is necessary that such ideas be clearly recognized and that no government can continue indefinitely to ignore them.

All of which is respectfully submitted."

THE CHAIRMAN: I suppose these problems of municipal taxation, Mr. Manning, have been discussed between your organization and the Provincial Government?

MR. MANNING: To a limited extent, yes. Unfortunately, of course, we find ourselves in difficulties there too because there seems always to be an impossibility of shifting without shifting something else.

COMMISSIONER MacKAY: Mr. Manning, have you given any thought to the English System of taxation of land, in proportion to its earning power?

MR. MANNING: I have, Sir, but personally I prefer to say that the English System of taxation is not quite correctly described as a system of taxation with reference to earning power. As I understand it, the English System is this: It is a system of taxation of the occupant on the basis of the assumed net annual rental value, after making allowance for depreciation, obsolescence, and that sort of thing. In other words, the basis of taxation is not necessarily the income which is derived from the property, but the income which theoretically is derivable, and that tax is quite often not on the person receiving the income but a tax on the person from whom the income is derived. So that it is so easy to get the notion that taxes should be adjusted on an income basis and that it would help

the owner of the land, when, in fact, that is not the English System at all. But with that qualification, the things that appeal to me about the English System are these: one of them is that persistent and long continued over-taxation would be impossible under the English System, because values would break down and your areas would be abandoned, and one does know from historical facts there have been periods of time when values in the local communities in England have been very seriously depressed. Take, for instance, the difficulties that arose after the War in respect to Blackpool, which resulted in the supercession of ordinary municipal government, through the extravagance of the Council.

COMMISSIONER MacKAY: Would you think it possible to effect a compromise between the English System and our system, by levying a tax upon occupiers as well as upon owners, - upon the property itself?

MR. MANNING: Yes, if you were to lighten the load before you started. If you were not to lighten the load my own belief is that you would not improve the position of the land owner at all because, having regard to experience in business assessment taxes and the apparent shifting of the load there from the tenant to the owner, through the reduction of rent, my judgment would be if you imposed that tax on occupants it would only reappear in the way of a reduced rent to the owner. But if the total load were reduced then it might be an extremely desirable expedient to distribute that load over a wider proportion of the population, and thereby to gain a much more lively interest in municipal economy.

COMMISSIONER MacKAY: It is a decided advantage to increase the number of taxpayers?

MR. MANNING: Yes, because the great difficulty now is the narrowing of the personnel of the tax-paying body,

resulting in an increasing municipal electoral expense, , I should say.

COMMISSIONER ANGUS: The English tax is really comparable to a consumption tax, is it not?

MR. MANNING: Very largely, Sir, yes, except I would say in the matter of incidence it is passed on to the producer.

COMMISSIONER ANGUS: The consumption tax may be to.

MR. MANNING: Yes, that is true.

THE CHAIRMAN: Mr. St. Laurent, have you any questions?

MR. ST. LAURENT: Just one, with respect to the recommendation on contributory unemployment and health insurance. Is that to be taken as an unqualified recommendation of the schemes that have been put forward up to the present time, or is it a recommendation of a strictly contributory sound unemployment insurance scheme?

MR. MANNING: I do not think it could be interpreted beyong the support of a strictly sound insurance basis.

MR. ST. LAURENT: Your body then has not gone into the consideration of any of the schemes that have been put forward up to the present time, to determine whether or not they would appear to be sound on a actuarialbasis?

MR. MANNING: No, Sir.

MR. ST. LAURENT: And this is to be taken only as a recommendation of one that would be strictly sound on a actuarial basis?

MR. MANNING: That is so, Sir.

THE CHAIRMAN: Thank you, Mr. Manning. The brief will be marked Exhibit 285.

EXHIBIT NO. 285. Brief of The Property Owners Association of Toronto.

THE CHAIRMAN: The next is the brief of the East York Business Men's Association.

MR. W. H. MARRAD: Mr. Chairman, and Gentlemen, on

behalf of the East York Business Men's Association I have much pleasure in introducing to you the Committee responsible for the drawing up of this brief: Mr. W. F. Haydock is Chairman; Mr. C.R. Purcell; Councillor, John Hollinger, and Mr. Percy Bustin, our Secretary. And we have with us this afternoon Reeve Warren.

THE CHAIRMAN: Who will present the brief?

MR. WHARRAD: Mr. Haydock.

THE CHAIRMAN: Mr. Haydock, we would be very glad to hear you.

MR.HAYDOCK::Mr.Chairman: "We, the East York Business Men's Association respectfully submit the following brief, chiefly because, as business men, we are vitally affected by conditions as they exist today, in Municipalities such as ours.

East York is a Municipality bordering on the City of Toronto,

Population 38,000 Total Assessment $14,500,000.
Business Assessment $ 292,177.

Business is done mostly through retail stores, manufacturing being almost nil.

The number of homes in the Township is 11,000, of these 500 have recently been taken over by the mortgagees. In addition, the Municipality has been forced to take over for tax arrears, property valued at $750,000 during the past three years.

The Township levy for 1937 (not including principal on debentures) was $1,085,000, $146,000 of this being for relief. In 1936 the relief cost of the Township was $239,000.

With a population of 38,000, the Municipality had on its relief roll 5,200 on December 31st last year, and has had as many as 14,000 on the relief roll at one time.

The relief cost to the Township during the past five years amounted to $850,000.

Educational costs in 1937 were $403,300, not including principal on debentures.

East York's building program amounted to $2,600,000 in 1928, but in 1937 its building program amounted to only $360,000.

In presenting these figures for your consideration we submit that, before normal conditions can return to such Municipalities as East York, it is apparent that some form of relief from the present burden of taxation, for relief and other Social Services, must be found.

We submit: -

First - That the British North America Act should be amended to relieve Provincial and Municipal bodies of Social Services.

i.e. Unemployment
Old Age Pensions
Mothers' Allowance
National Health
Care of the Unfit
Housing
Relief

With these we couple education.

We submit that, all of the above being of a National character cannot in any way, be considered a local responsibility.

For example: we believe, that some plan should be inaugurated by the Federal Government, whereby low wage earners could secure low priced homes.

In this connection we wish to point out, that under the present Dominion Housing Act, Municipalities such as ours, adjacent to larger Cities, where credit has been impaired due to over-taxation, are being discriminated against by the loan companies. These Municipalities, because of the burden of taxation, through unemployment, etc., have been forced to default, through no fault of their own.

Recent experience in the administratinn off some of the Social Services referred to has shown that the duplication in the administration of these

services has been most costly, wasteful and confusing to administrators, with dissatisfaction to all concerned.

We therefore, submit that all should be taken over by one Federal Department.

THE CHAIRMAN: Mr.Haydock, before passing this, just one or two questions in reference to it. Do you think that relief could be as efficiently administered by the Dominion or Provincial governments as by the local municipal council?

MR.HAYDOCK: We are of that opinion.

THE CHAIRMAN: Have you found any difficulty in administering relief by local pressure on councilmen?

MR.HAYDOCK: It has been very difficult for the councilmen, very difficult.

THE CHAIRMAN: You have not had a comfortable time in East York, I believe, in respect to relief?

MR.HAYDOCK: No, not by a long way.

THE CHAIRMAN: What is your tax rate?

MR.HAYDOCK: The Reeve might answer that.

REEVE JOHN WARREN: There are varying tax rates, varying from around sixty to as high as ninety in various sewer sections. The Township is divided into various school sections and sewer sections. The average rate, I would say, would be around seventy to seventy-five.

THE CHAIRMAN: Seventy to seventy-five mills on the dollar?

REEVE WARREN: Yes sir.

THE CHAIRMAN: That is for school and municipal services?

REEVE WARREN: Oh no, I thought you were asking for the total rate.

THE CHAIRMAN: Yes, the total rate.

REEVE WARREN: Yes.

THE CHAIRMAN: And what percentage of that would be schools?

REEVE WARREN: About one-third, I would say.

THE CHAIRMAN: Then your tax rate for your municipal services would be about four or five per cent?

REEVE WARREN: I might perhaps point out that even this year, in our tentative budget which we have prepared, the mill rate for the township for administrative purposes will be approximately nineteen to twenty mills, - 19.9. The total mill rate for the public schools and the one collegiate which we have will be 28 mills, 18 for public schools and 10 mills for the collegiate. That is our present budget. And then on top of that, if I might add, we have nine mills for relief.

THE CHAIRMAN: That gives you 58 mills then, or approximately that?

REEVE WARREN: Yes. And then there are the sewer rates, the sewer areas and the water areas.

THE CHAIRMAN: Is there a special tax for those?

REEVE WARREN: Yes, against the special areas.

THE CHAIRMAN: You seem to be taxed about as much as anybody that has come before us so far.

REEVE WARREN: I thought perhaps, after Mr.Haydock got through with his brief, I might be able to give you some information with reference to our situation.

THE CHAIRMAN: Yes. Are you under an administrator?

REEVE WARREN: Yes, we have been under supervision since 1933.

THE CHAIRMAN: And all expenditures are subject to supervision?

REEVE WARREN: That is right, yes.

THE CHAIRMAN: This tax rate has been approved by the supervisors as being necessary for your purposes?

REEVE WARREN: Up to the present time, yes.

THE CHAIRMAN: Is the administrator appointed by the Ontario Department of Municipal Affairs?

REEVE WARREN: The administrator?

THE CHAIRMAN: The supervisor?

REEVE WARREN: The supervisor, yes, Mr.Gray, at the present time.

MR.HAYDOCK: "Secondly : We submit the duplication in the system of licensing trades and businesses, and the assessing for business tax now in existence, is antiquated and unfair.

The Dominion Government issue certain licenses, and the Provincial Government issue licenses, in many cases there is duplication or a continuation of the same, the Municipal bodies following with a most absurd system of collecting as much as they think the taxpayers can stand, without any system of uniformity or co-operation.

As an example,- we mention the licensing of tobacco and cigarettes. One Municipality collects $10 per year, another $25, another $250, others collect no license at all. On tobacco there is also the Dominion Government tax on growing, manufacturing, sales tax. We submit this type of duplication should be eliminated."

THE CHAIRMAN: I suppose they think the smokers can stand a pretty good tax, is that it, Mr.Haydock?

MR.HAYDOCK: Well, they do, yes.

THE CHAIRMAN: It is an important source of revenue to all governments.

MR.HAYDOCK: "Thirdly, - The system of collecting "so-called" business tax by the Municipality, while assumed a business tax, is really a second property tax, disguised as a business tax.

This tax is assessed on the property occupied, not on the business done. Each municipality assesses property according to its supposed needs, from about 25% up. We believe this tax should be on business turnover, and that same should be collected by the income tax department.

Example : 3 stores, construction, frontage, depth of lot the same in each case.

No.1 Sales Turnover about $2,500,

No. 2 Sales Turnover $10,000 to $12,000.

No. 3 Sales Turnover $20,000 to $25,000,

yet all pay the same business tax."

THE CHAIRMAN: They would not all pay the same business tax, would they, if the building was not comparable in which the business was done? If one building was much superior to the other would not the business tax be higher?

MR. HAYDOCK: Yes, it would be higher due to the higher general assessment.

THE CHAIRMAN: The higher building assessment?

MR.HAYDOCK: Yes.

"We submit that, if industry and business must be taxed and licensed, it should be done on a percentage turnover basis, that there should be a uniform system of assessing and collecting, that same should be done by the Dominion Government. This licensing and business tax must be National to be equitable."

I think, Mr.Chairman, that is as far as we have gone; it is rather brief.

THE CHAIRMAN: On this question of taxation, what is the basis of your assessment? Of course the tax burden depends on first assessment and second the amount of the rate. The assessment may be very low and the rate very high

or the assessment may be very high and the rate very low, or both may be high or both low.

REEVE WARREN: Our assessment is about one-third of the actual value.

THE CHAIRMAN: Is there any property changing hands in your district now.

REEVE WARREN: Chiefly changing hands in the municipality confiscating them, and I think that is the correct word.

THE CHAIRMAN: By tax sales?

REEVE WARREN: Yes. Not sales, but registrations. We have not had a tax sale since 1932.

I would like to say, Mr.Chairman, perhaps I can just in a few words outline our problem. I would like to say this,that as far as preparing a brief for this Commission, we contacted the Department of Municipal Affairs at Queen's Park and in our discussions with them it was pointed out that they were preparing a brief which would cover all municipalities. And also being a member of the Ontario Mayors' Association and the Canadian and Amalgamated Municipalities of Canada, their brief was being presented and we were to present facts to those various bodies which would be embodied in one brief. Other than that I can assure you that the brief we would have presented to this Commission to show what this tax on real estate has done to our municipality in particular would be, I think, almost a horrible example.

I have presented the facts to the Provincial Government, also to the Dominion Federal Cabinet through the Mayors' Association and they were all, I might say, shocked to see what has happened in a municipality such as ours.

THE CHAIRMAN: Take your municipality, what percentage of land or houses has reverted to the municipality because of failure to pay taxes?

REEVE WARREN: We have taken over $750,000 worth of assessments in the last three years. In 1932 we stopped all tax sales because of the fact that we could see that outsiders, as it were, were going to come in and buy up properties, homes,of people who were in arrears of taxes. We did not want that situation to develop, so we stopped all tax sales. Then the situation developed where the arrears of taxes on the vacant land got to be of such big proportions that something had to be done about it, so we registered vacant property and we have been taking vacant property over since 1935, and we have taken over $750,000 worth.

I can assure you, sir, that I could give you some stories here, as I did to the Federal Cabinet, of estates that have been hard hit. I know of one in particular that has been in the hands of a certain family for over one hundred years, the Moffat Estate I am referring to particularly, and through this taxation there we have a family of five, all of them over sixty, that have had to lose their property through this excessive taxation.

We have been paying 10 mills for relief, as I told you just now, since 1933. In 1933 we decided that we would not fund any of our relief costs, we would pay our way as far as relief was concerned. But to do that we could not carry out our contractual obligations as far as our bonds were concerned, so we went into default. We have been in default since 1933, and I can conscientiously say unless we do get first of all the burden of relief lifted, in other words 9 mills, also relief from our educational costs, it will be impossible to pay any principal on our bonds.

I have already told you what our mill rate will be this year, and if on top of that mill rate we had to levy

to pay the principal on our bonds it would mean nearly twenty mills more, so you can see how impossible that would be.

THE CHAIRMAN: To pay interest on your bonds?

REEVE WARREN: To pay principal. We are levying at the present time our full interest. We are paying three per cent and placing the balance in reserve as against the day when refunding takes place. But on top of that if we had to levy for our principal it would mean approximately raising $300,000, and on an assessment of $14,000,000 20 mills would raise $328,000. So you can see how impossible our picture is.

COMMISSIONER DAFOE: You are paying interest on a defaulted principal?

REEVE WARREN: We paid the interest right up to date, three per cent only.

THE CHAIRMAN: That is under an arrangement with the supervisor and the bondholders?

REEVE WARREN: Yes, that is right.

I might just simply say this, as I had the pleasure of telling the Honorable Mr.Norman Rogers and the Honorable Mr.Dunning, that our municipal population is approximately 38,000. We are an English-speaking community, there is not one per cent foreign. But they are chiefly made up of building mechanics and labourers. The ordinary priced home in that municipality is $2900. And here we have a situation where there are over 500 houses at the present time in the charge of mortgagees.

The short brief presented by the business men's association has shown you how the building permits have dropped in our municipality. I might say that we were a part of York previous to 1924. We were divided into two municipalities in 1924.

THE CHAIRMAN: Where is the dividing line between East York and York?

REEVE WARREN: It is Bayview Avenue.

THE CHAIRMAN: You are the property east of Bayview?

REEVE WARREN: It runs in kind of a diagonal line. It runs from Bayview, and that is immediately east of Moore Park in the city, and then it takes a line, the southern boundary of Leaside, and right across to the Thorncliffe Racetrack.

THE CHAIRMAN: Is Bayview within your municipality?

REEVE WARREN: Yes, a portion of it. The northern portion is in Leaside. Now, since we segregated from York, of course immediately the people wanted improvements. The district was building. It was a district that has been pioneered from the beginning. I myself have lived there since 1910, so I know the story of men coming in there and building their own houses and so on and so forth. And then the time came when improvements were needed. We broke away in 1924 and the council of that year and the years after started to put in a sewer system and so on, which the people needed, until they had borrowed approximately five million dollars. Then the depression came and building permits started to go down, tax collections were dropping and so on, until we have this picture that has been presented in this brief today. In 1924 our total value of buildings were $1,564,000. Then it varied until it reached its peak in 1928 when we had $2,502,632. Then it started to go down until in 1937 our permits were $315,703.

THE CHAIRMAN: Is nearly all the land in East York residential?

REEVE WARREN: Yes.

THE CHAIRMAN: Is there much farming property in East York?

REEVE WARREN: No, very few farms. It is chiefly residential. There are only two manufacturing plants, that is the Ford plant on the easterly limit of the township, and the Don Valley brickyards, and two or three other smaller brickyards. Other than that it is simply a residential district. I might say the Moffat estate I referred to was farm land.

THE CHAIRMAN: Of course no farm would stand the taxes that you are imposing?

REEVE WARREN: No.

THE CHAIRMAN: Unless it was assessed very low?

REEVE WARREN: But we had nothing else to do but to put the tax on under the present system.

We have another situation in the centre of the township that has been owned by a family for, I would say, nearly 100 years, known as the MacKay property. All that property, about, I would say, perhaps 15 acres, has all come back to the township through this excessive taxation.

Our point, of course, in presenting this to the Federal Cabinet was that this excessive taxation on real estate was throttling the building industry of this municipality. As I pointed out to Mr.Dunning, and he agreed with us, that so long as these taxes are such a burden, that no matter what acts are brought in by the Federal government, the Dominion Housing Act and various other ones, unless this taxation was lifted it would be impossible to revive the building industry.

Before I sit down I would like to comment on a question you asked Mr.Haydock, and I know you are greatly interested in it. That is the question of whether the government can administer relief better than the local Municipality. We had an experience of that in 1925. In 1925 the provincial government took over the administering

of relief in East York . I am not going to comment on it very much except to say this, that in October of that year they simply handed it back to us, and we found that the cost had greatly gone up in the meantime. The experience as we found it in East York in other words, was that the cost of administration did jump tremendously.

THE CHAIRMAN: When it was turned over to the government?

REEVE WARREN: That is right.

THE CHAIRMAN: Then would it jump more, do you think, if it was turned over to the Dominion?

REEVE WARREN: I don't know about that. I think, although it might seem a strange thing to say, that the municipalities could administer it, that is the local municipalities could administer it better than the provincial authorities, because we know the local situation. We know the local people perhaps better, we know everything concerned with it, and I think it could be administered cheaper by the local municipalities. But it is the cost of it. We believe of course that the Dominion Government should pay for the cost.

COMMISSIONER DAFOE: In that case, if they are paying for the cost, would it not be inevitable that they should administer it?

REEVE WARREN: Yes, absolutely, but I don't think there is one municipality in Canada but what would be satisfied perhaps to pay the cost, if it came down to that, of administering it, if we did not have to pay the gross costs.

COMMISSIONER DAFOE: Yes, but that would be a very doubtful experiment, I think, one body putting up the money and the other body spending it.

REEVE WARREN: Yes.

THE CHAIRMAN: Thank you very much. We will give careful consideration to the brief. It will be marked exhibit 286.

MR.HAYDOCK: Thank you very much, Mr.Chairman.

EXHIBIT NO. 286 - Brief of the East York Business Men's Association.

THE CHAIRMAN: The next brief is that of the County of York and its constituent municipalities, presented by Mr. J.D. Lucas, Mr. W.W. Gardhouse and Mr. Robert Ainsworth.

MR.J.D. LUCAS: Mr.Chairman and gentlemen: I have had the pleasure of today listening to briefs that have preceded this and I may say that to a large extent they have dealt with the very points that we wish to present to the Commission. We in part wishing to deal with some of those points, perhaps you would bear with me while I give to you some of the facts as they relate to the County of York. We have in our brief summarized the submissions which we wish to make and at page 5 may I read as follows :

The facts presented show:

(a) That of the twenty-six local municipalities comprising the County twelve are suburban to the city of Toronto;

(b) That the population of the County in 1937 (244,027) was almost four times that of 1913 (63,929) and almost twenty-five per cent greater than in 1930 (195,945);

(c) That almost all this growth took place in the suburban municipalities;

(d) That the taxable assessment of all the local municipalities in the County, as determined by the local assessors in 1937, was almost two and three-quarters times that of 1913 and 8.4% greater than in 1930;

(e) That almost all of this increase occurred in the suburban municipalities;

(f) That the assessed value of the land, exclusive of buildings, as determined by the local assessors was not much greater in 1937 than in 1921 and was lower than in either 1933 or 1930. This was true for both suburban and non-suburban municipalities and in the latter case the value in 1937 was lower than in 1921;

(g) That the assessed value of buildings as determined by the local assessors for the year 1937 was almost three times that for 1921;

(h) That practically all of this increase took place in the suburban municipalities;

(i) That taxation on local municipalities in the County in 1937 was more than thirteen times that of 1913;

(j) That, based on the total taxable assessment, as determined by the local assessors, the rate which would be required to raise the amount of taxation for County and local municipal purposes rose from 13.04 mills in 1913 to 69.29 mills in 1930 and 65.54 mills in 1937."

THE CHAIRMAN: On that point, Mr.Lucas, you are speaking of the county rate plus the township rate?

MR.LUCAS: Yes.

THE CHAIRMAN: Does not that rate vary? The Township rates in the different townships are not all the same, are they?

MR.LUCAS: Well, the information contained in paragraph "J" is set out at greater length at page 10.

THE CHAIRMAN: We will come to it then.

MR.LUCAS: The facts as summarized in turn are detailed a little later on.

THE CHAIRMAN: Yes, thank you.

MR.LUCAS: " k" That in the period 1932-35 ten municipalities in the suburban area were unable to raise sufficient revenue to meet current expenditures and defaulted on their debt."

Those are the municipalities which went under the Province of Ontario, became supervised under the Department of Municipal Affairs Act.

THE CHAIRMAN: Those were principally the suburban municipalities, were they not?

MR.LUCAS: Yes, all suburban municipalities save two went under that Act.

THE CHAIRMAN: And one or two townships went under it, did they not?

MR.LUCAS: There would be four townships. They are included, however, as municipalities in the suburban area, those townships.

(l) "That the rate on the total taxable assessment, as determined by the local assessors required to raise the amount to meet the expenditures on social services, namely: Unemployment Relief, Board of Health, Hospital Care of Indigents, Children's Aid, Mothers' Allowances, Old Age Pensions and County Industrial Home rose from 3.16 mills in 1930 to 9.7 mills in 1936, and due to the taking over of Old Age Pensions and Mothers' Allowances, (that is by the Province), is estimated at 7.7 mills in 1937;"

(m) That of the social services, the mill rate required for Unemployment Relief on the same

basis increased from .65 in 1930 to 5.24 in 1936;

(n) That Provincial grants towards secondary education in the County were proportionately less in 1937 than in 1931."

Then the points which the County of York wish to make upon these facts are:

1. "That the local municipalities in the County with the avenues of tax revenue now provided for their use find it most difficult and are sometimes unable to raise sufficient revenue to meet existing demands for services, including complete debt service;
2. That the cost of unemployment relief should be assumed by the Province and the Dominion as a means of meeting this situation and also because it is felt that unemployment relief is not rightly a responsibility of local municipalities."

I might here state that I was interested in the observations made by Mr.Warren and the Commissioners in the last brief that was presented, when Mr.Warren stated that he felt that administration of relief could be better done by local municipalities than by the province or by the Dominion. From my own experience as solicitor for the County of York I would agree with his statement. That is the situation at the present time with regard to the administration in the County of York of mothers' allowances and old age pensions. There is a joint administration of these services; the province paying for the cost but the cost of administration and the actual administration is done by the county and the local municipalities.

THE CHAIRMAN: Who determines those entitled to Old age Pensions?

MR.LUCAS: A local board, the members of which are appointed, partly by the County, and partly by the Province. But those men are men who are very often outstanding citizens of the County and the various communities, who know the community and know the people and very often the applicants, more often than not, and are able to pass their opinion on the necessity.

THE CHAIRMAN: Does the same provision apply to Mothers' Allowances?

MR.LUCAS: Yes sir.

COMMISSIONER DAFOE: The same board?

MR.LUCAS : Actually in the County of York another board, because, I suppose, of the size of our County. But I understand in other counties a joint board. There could be a joint board. And then the board engages its own staff, which very often can be some other member of the County staff.

3. That the Province should assume a greater share of the cost of maintaining indigent patients in hospitals, as a further relief to municipalities.

4. That as the Province controls the age at which children must attend school, and through its system of grants, the size of classes, type of equipment, etc., it should contribute a greater share toward the cost of secondary education, at least up to fifty per cent. This would spread the cost and help to relieve academic and vocational schools the burden now placed upon real property which, it is submitted, does not benefit from the expenditure on education in any greater degree than does other forms of wealth."

THE CHAIRMAN: These are your general submissions?

MR.LUCAS: Yes.

THE CHAIRMAN: Now, is there anything in the factual part which differs from the general situation as pictured to us in the other briefs, Mr.Lucas?

MR.LUCAS: There is very little. I might draw your attention to a few facts. The total population of our County is 244,000. The total assessment of our county at the present time $132,000,000.

Then, carrying on to page 10, particularly uncollected taxes, at the bottom of the page:

> "The burden of taxation in recent years coupled with depressed economic conditions has brought about increasing amounts of uncollected taxes in many of the local municipalities. Increased tax collections since 1933 have brought about some reduction in tax arrears since that year. However, a considerable number of owners have been unable to meet the tax demands with the result that their properties have reverted to the municipality in which they are situate, either through tax sale or through registration."

I should there state that if it is not already known to the Commission, under the Department of Municipal Affairs Act where a Municipality goes under supervision that municipality has been given an unusual power of being able to register a certificate in the registry office when taxes are only one year in arrears and thereupon, on registration, that land vests in the municipality, subject to being divested within one year on redemption.

> "The three tables following show the facts for
>
> (a) Uncollected taxes exclusive of lands reverted to the municipality.
>
> (b) Lands reverted to the municipality due to unpaid taxes.

(c) total uncollected taxes and taxes on lands reverted to the municipality."

THE CHAIRMAN: Is there any real difficulty in the purely rural municipalities?

MR.LUCAS: I would say that there is a good deal of difficulty there, but it is rather hard for me to quite explain the details, as to why it is difficult.

THE CHAIRMAN: Because there are very solid farming communities in the townships forming York County, very substantial farmers in most of the areas. Is the tax burden on these farmers excessive?

MR.LUCAS: We have in the County of York an unusual condition, where some of the townships bordering on the city of Toronto are partly urban and partly suburban. Of those could be said Etobicoke, Scarboro particularly, and possibly North York. And in the information given in this brief, the information has been broken down so that the facts relate to suburban townships, suburban towns and villages, rural townships and other towns and villages.

THE CHAIRMAN: Yes. Now, look for a minute at some of the rural townships. Take Vaughan or King or Whitchurch, purely rural.

MR.LUCAS: The scheme of this brief, may I state, was first of all to give our summary of facts.

THE CHAIRMAN: It was a very good idea.

MR.LUCAS: And then following that we have broken those down to give detailed information relating to each item of the summary of fact, and then following that again we have rebroken it down, so that the detail of facts can be further detailed to each township.

THE CHAIRMAN: We can look that over and see what it shows.

MR.LUCAS: But one can see at page 11 upon the representations of uncollected taxes exclusive of lands reverted

to the municipality, and then (A) on page 11, the type of municipality, suburban townships, that is the real farmer, in 1930 there were uncollected taxes of $3,171,000. in 1933 $5,800,000, in 1935 it had still risen to $6,110,000. in 1936 it had dropped to $4,682,000.

COMMISSIONER ANGUS: Does that mean that taxes were being paid up or that land was being forfeited?

MR.LUCAS: I would say that the arrears of taxes had been paid up to some extent, largely paid up.

THE CHAIRMAN: You see, the arrears in the rural townships are not very great.

MR.LUCAS: Not as compared to the suburban townships.

THE CHAIRMAN: No.

MR.LUCAS: The suburban municipalities surrounding the city of Toronto have a very unusual problem in that, for instance, speaking of East York, there is very little business assessment in the whole of the Township. The whole of the township is comprised of working men of very modest occupation, men who drive for big firms and such type of people. There is no wealthy district in the whole of the township and no business assessment.

THE CHAIRMAN: Do you not get a few of the Bayview people in it?

MR.LUCAS: Most of them are in North York. The well-to-do people who live on Bayview Avenue are in the Township of North York. I don't know of any in East York. Then, there is no real wealthy district in the township and no business assessment. Those people in turn, however, work for large business houses in the city and there is a big area downtown which is subject to big business taxes, who are supplying the ordinary needs, the ordinary day-to-day wants of these people, and yet none of the business tax goes to the municipality. And these suburban townships have accordingly presented this form of grievance in various

ways to the Provincial government, asking some relief from the City of Toronto.

THE CHAIRMAN: The City of Toronto thinks it needs relief from the suburban people.

MR.LUCAS: I might make this observation: I noted this morning in listening to the brief of the City of Toronto, some complaint was made concerning the cost to the city of Toronto of highways running out of the city of Toronto. You will note, however, that that situation was founded on an agreement that was originally made, and it is only fair to point out that all those roads which have been added to the system were added by a commission, the Toronto and York Roads Commission. The appointment, I should say, of that commission is equally representative of Toronto as it is of the County as a whole because it is composed of five men, two of whom are appointed by the County of York, two are appointed by the City of Toronto and the fifth appointed by the four, or if they do not agree, appointed by the Lieutenant-Governor. So that each of the municipalities had an equal voice in the say of which and how many of those roads should be added to the system, which originally was founded on an agreement made between the municipalities.

Now then, also at page 11, (b) ---

THE CHAIRMAN: Mr.Lucas, it is now 4:30. How long would you like to have to finish?

MR.LUCAS: I can finish in five minutes or less. I would like to finish.

THE CHAIRMAN: Yes, thank you.

MR.LUCAS: We can see that in part B, there have been reverted to the municipalities in the County of York, due to unpaid taxes, approximately, since 1930, over three and a half millions of dollars of taxes out of a total assessment of $132,000,000. And that the total un-

collected taxes, including taxes on lands reverted to the municipality, amounts at the end of 1937 to approximately $10,000,000 or approximately again one-thirteenth of the whole assessment.

I should again point out that the burden of taxes in the County of York has resulted in twelve of those suburban municipalities having absolutely to throw up their hands and say: "We cannot pay our moral obligations," and defaulted so they would not have to do so, and be supervised by the department.

THE CHAIRMAN: Take a purely rural municipality, there the farmer is assessed for the county rate, the township rate, the school rate - is there another rate?

MR.LUCAS: I would not think so. He has a local township rate and a local school rate and a county rate.

THE CHAIRMAN: What is the total amount of the tax say in Townships like Vaughan or King or Whitchurch?

MR.LUCAS: I think Mr.Gardhouse, the county treasurer, would be in a better position to tell you that.

MR.GARDHOUSE: I think that ranges somewhere between thirty and thirty-five mills, depending on the township. Some of the townships have a higher assessment and others a lower assessment, I mean the proportion of assessment to value. I think it will range between thirty and thirty-five.

THE CHAIRMAN: And roughly speaking what is the basis of assessment, what percentage of the value?

MR.GARDHOUSE: That again, sir, varies, but I think the average assessment in the rural municipality would be about 40% of the actual value. It would vary.

MR.LUCAS: I think with that, gentlemen, I can leave with you the printed brief for the consideration of the Commission as contained therein, it having been pretty

well covered, I can see, by many who have gone before me. Thank you.

THE CHAIRMAN: Thank you, Mr.Lucas. We will give it careful consideration. Have you any questions, Mr.St. Laurent?

MR.ST.LAURENT: On page 10 there is a statement of the mill rates, I take it to be, prevailing in the various types of municipality, and for the rural townships I find that it is 10½ in 1913, 20.02 in 1921, 28.95 in 1930, and 25.30 in 1937. That would be the average mill rate for the municipalities listed here as rural townships?

MR.LUCAS: Yes, I would think so.

MR. ST.LAURENT: And that would cover the whole tax, the county and school ---

MR.GARDHOUSE: Excepting where there might be some local improvement in the municipality. This would be the general rate, sir.

MR. ST.LAURENT: This would be the general tax rate?

MR.GARDHOUSE: Yes sir.

MR.ST.LAURENT: And the total mills for the municipalities, divided by the number of municipalities, it might not be actually right in any one of the municipalities, but it would be the average for the municipalities listed as rural, for instance, on page 16, under paragraph "C".

MR.GARDHOUSE: Yes sir, that is correct.

MR.ST.LAURENT: That is all, sir, thank you.

THE CHAIRMAN: Thank you.The brief will be marked exhibit 287.

EXHIBIT NO. 287 - Brief of the County of York, and its Constituent Municipalities.

--- The Commission adjourned at 4:35 P.M. to meet at 10:30 A.M. Friday, April 29th, 1938.

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